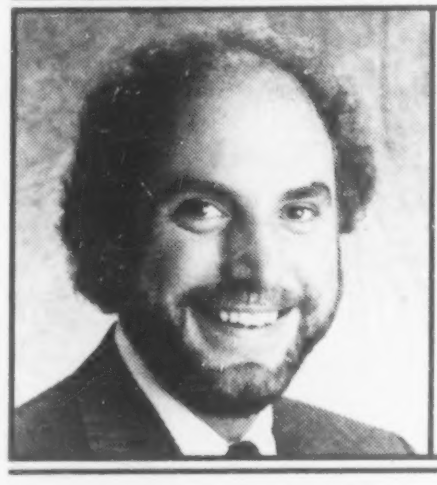
EDITORIAL

Crossing the Border For U.S. Business

You still can't drink the water or eat some of the fresh fruit or breathe comfortably, particularly on a level 3 pollution alert day. The traffic is horrendous, the taxis are uncomfortable, and the poverty is glaring. Most Americans don't know who the president of Mexico is, yet most Mexicans are well-informed about American politics.

But regardless of social, economic and political differences, there are also many similarities, including a demographic profile that is a marketer's delight. There is definitely opportunity for growth—limited in some cases—for U.S. companies south of the border. That's the conclusion of over 75 executives from top U.S. retailers and consumer products companies who attended a timely two-day conference co-sponsored by *DSN* and Deloitte & Touche last month in Mexico City at the same time the NAFTA Agreement was being negotiated in Dallas (see page 1).

Furthermore, there is a much stronger spirit of cooperation—and certainly a much stronger need—for a free trade agreement in Mexico than in Japan.



TONY LISANTI
Editor

Consider these recent ventures by U.S. firms in Mexico:

- Wal-Mart and CIFRA have already opened two Club Aurerra's in Mexico City with plans for two more in 1992;
- Price Club and Comercial Mexicana have opened one Price Club de Mexico in Mexico City with plans for 12 by 1995;
- Food distributor Fleming has joined forces with Gigante;
- Corning and Vitro, Sociedad Anonima agreed to create a worldwide housewares business;
- Rubbermaid acquired CIPSA, a manufacturer of plastic housewares.

It took Toys "R" Us almost two years to open in Japan last December, giving some U.S. toy suppliers entry there. Yet, despite breakthroughs in free trade with Japan, since TRU no other major retailers or suppliers have formed partnerships with Japanese companies.

Ironically, while some criticism has been voiced about NAFTA—particularly regarding the loss of manufacturing jobs to Mexico—the reality is that if U.S. companies don't jump at the opportunity to expand, Japanese firms will quickly dominate the 13th largest nation with 86 million people.

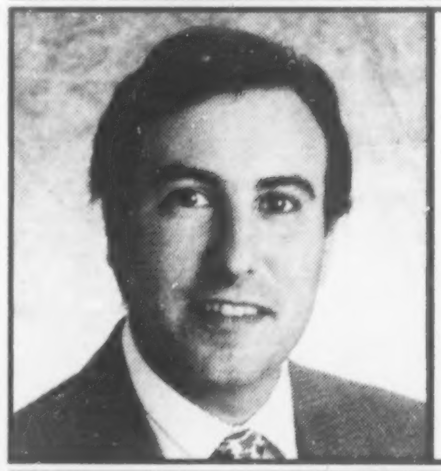
BUYERS & SELLERS

To Shoppers, Discounting Crosses Boundaries

After more than 30 years of history, discounting is still an emerging retail phenomenon in the United States. The exclusive consumer research study in this issue of *DSN* (see page 31) shows that discounting is driven by the largest spending U.S. households and is growing in a variety of forms as distribution technology continues to improve.

One of the key findings of this study is that consumers do not draw the same lines as the trade does between discounters and non-discounters. For the consumer, a merchandise category is a discount offering when its pricing reaches a threshold that is regarded as "discounted from" or less than the intended price. As far as the consumer is concerned, discounting can occur—and is welcomed—in any retail setting, including conventional department stores.

This blurring of the distinctions between the various forms of retailing has been going on for years. Discounters have expanded into convenience foods; supermarkets carry more general merchandise; warehouse clubs, hypermarkets and supercenters sell food and general merchandise; specialty stores combine discount pricing with the assortment and selection of full-price outlets; deep discount drug stores can compete with general merchandise discounters in price and selection in selected product categories; etc.



DON LONGO
Exec Editor

This study rocks the traditional way of looking at retail channels. It will help retailers and suppliers understand the differences in how consumers view different stores, as well as show them the demographic characteristics of shoppers attracted to each of the major retail channels by product category. A retailer can be perceived as a discounter in one category of goods, but not in another.

I think this is the most informative study ever published by *DSN* or any retail trade publication. The data published here is just the tip of the iceberg in terms of the reams of information *DSN* has gleamed from the nearly 2,000 heads of U.S. households interviewed by Leo J. Shapiro & Associates between November 1991 and January 1992. For more detailed information, please fax me a note at (212) 756-5125.

TAKING STOCK

Tracking Shopper Traffic May Improve Service

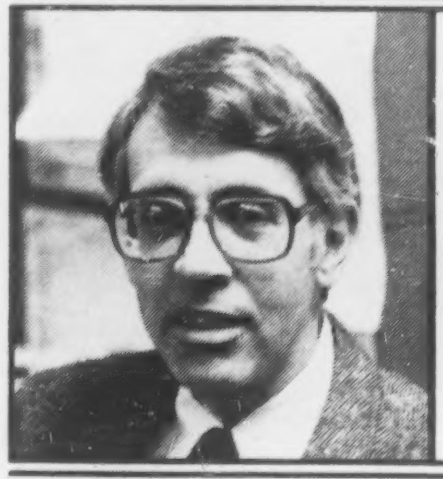
The array of technology applications now available to retailers has resulted in merchants being able to explore different systems designed to accomplish similar goals while also gaining distinct additional benefits.

A case in point: tracking shopper traffic throughout a store to provide better customer service.

Kmart's technology test is Datatec Industries' ShopperTrak, while Wal-Mart's is VideOcart Inc.'s VideOcart. Each retailer is now monitoring shopper traffic and matching this information to sales data to fully profit from the technology.

ShopperTrak is a low cost, passive system that doesn't require customers to do anything special. But its core technology can't be used for other marketing purposes.

VideOcart, however, is a more expensive but more versatile technology that requires some action on the part of a customer: picking a shopping cart that has an attached VideOcart interactive display terminal. Failure to use a VideOcart-equipped cart negates the technology (and Wal-Mart's test).



ARTHUR MARKOWITZ
Senior Editor

Besides tracking shoppers, VideOcart's core uses include showing a map of the store and indicating where a shopper is, and displaying ads and special offers as a cart passes designated items to promote sales. Two other features (which Wal-Mart isn't currently testing) are a card reader for frequent shopping programs and for target marketing promotions to specific shoppers, and electronic couponing whereby coupons are stored electronically and credited at the checkout. (Wal-Mart, however, has devised some unique uses that it's probing).

Kmart is testing interactive terminals to obtain some VideOcart benefits that don't accrue to it from ShopperTrak. The retailer, in effect, picked a focused shopper tracking system with a low cost/risk factor and went to other technologies for other uses. Wal-Mart chose one system with a higher cost/risk factor that offers much more benefits and greater customer service.

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Discounter share of apparel

During the past year nearly nine out of 10 consumers—86 percent—have shopped in discount department stores, and according to a recently released study conducted by Leo J. Shapiro and Associates, a lot of them were purchasing apparel.

In fact, the study, which is based on a nationally representative sampling of more than 1,700 heads of households, indicates that discounters dominate certain apparel categories.

The most obvious case in point is children's wear. Consumers report that just about half, 48 percent, of their children's apparel expenditures are made at operations they describe as discount stores.

The South is apparently the discounting land of plenty. The respondents from that region report that 51 percent of their children's wear purchases were made at discounters. Discounters in the North Central states received 49 percent of consumer children's wear dollars, while these kinds of stores garnered a 48 percent share in the West and a 44 percent share in the Northeast region.

Consumers don't only purchase their kids clothing at discount stores, they also spend significant amounts on themselves in these outlets. According to respondents, who were queried between November and January, discounters attract a 35 percent share of women's wear dollars.

Young shoppers from 21 to 34 spend the largest portion of their women's wear dollars at discounters—40%. Consumers in the 35- to 54-year-old group spend 37 percent of their women's wear dollars at discounters, while the 55 and up population says 27 percent of their women's clothing expenditures go to discount stores.

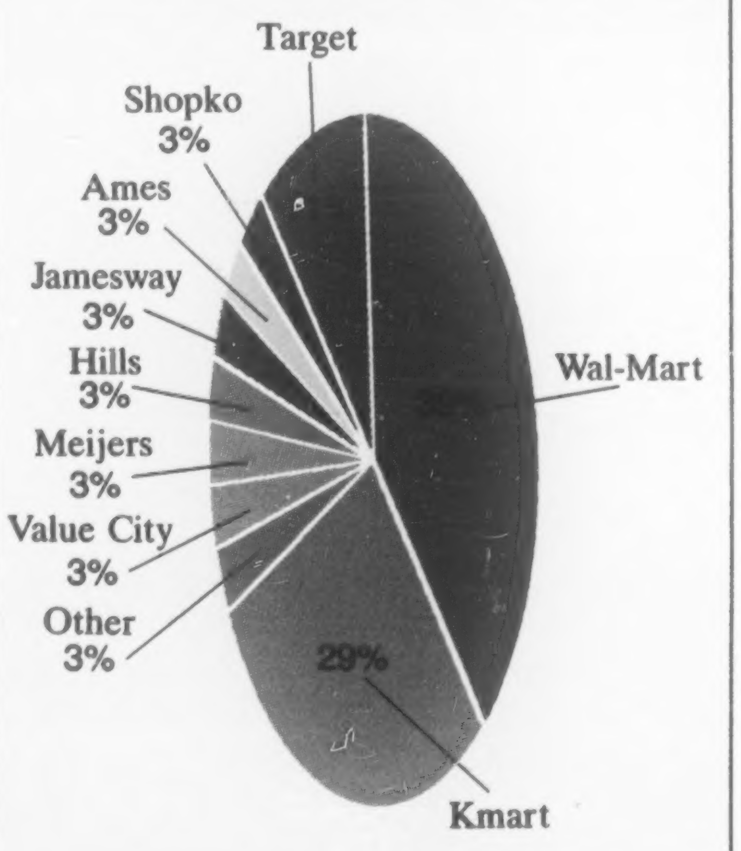
Considering that most discount stores don't carry tailored clothing, and stock dress furnishing in only a limited fashion, it is not surprising that men's wear shoppers spend less at these outlets. Consumers report that three in 10 of their men's wear dollars are spent in the discount tier.

Discount stores obtain their greatest share of dollars for apparel in all three categories—men's, women's and children's—from consumers who tend to be young, fall into lower income groups and generate most of their household funds from the salary of a blue collar worker.

Children's wear

Wal-Mart is the Winner

(Where did you make your last apparel purchase?*)



*Based on on household heads who made their last children's wear purchase at a discount department store. Does not include off-price operations.

Consumers spend almost half, 48%, of their children's wear dollars at discounters

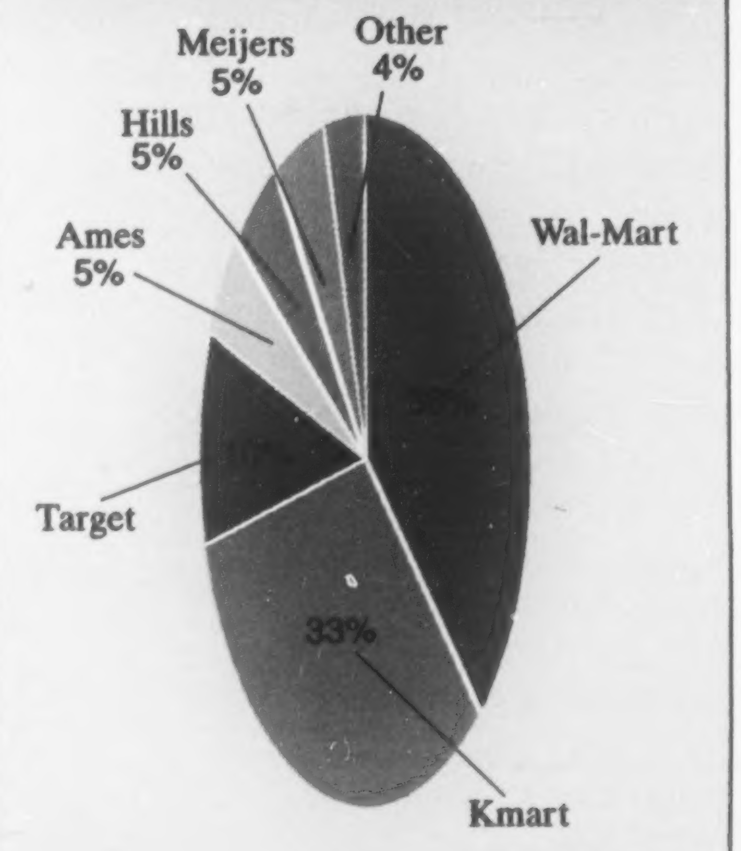
(What proportion of your household's children's wear expenditures are made at discount stores?)

	Discounter's share of children's apparel dollars
TOTAL	48%
AGE	
21-34	51%
35-54	47%
55+	43%
INCOME	
Under $30K	55%
$30K-$49K	50%
$50K+	37%
HOUSEHOLD SIZE	
1 person	33%
2-3 people	47%
4+ people	51%
EDUCATION	
High school or less	45%
Some college	52%
College graduate	52%
OCCUPATION OF HOUSEHOLD HEAD	
Management/ Professional	42%
White collar	62%
Blue collar	46%

Women's wear

Wal-Mart edges out the pack

(Where did you make your last apparel purchase?*)



*Based on on household heads who made their last women's wear purchase at a discount department store.

A significant share, 43%, of white collar worker's women's wear dollars are spent at discounters.

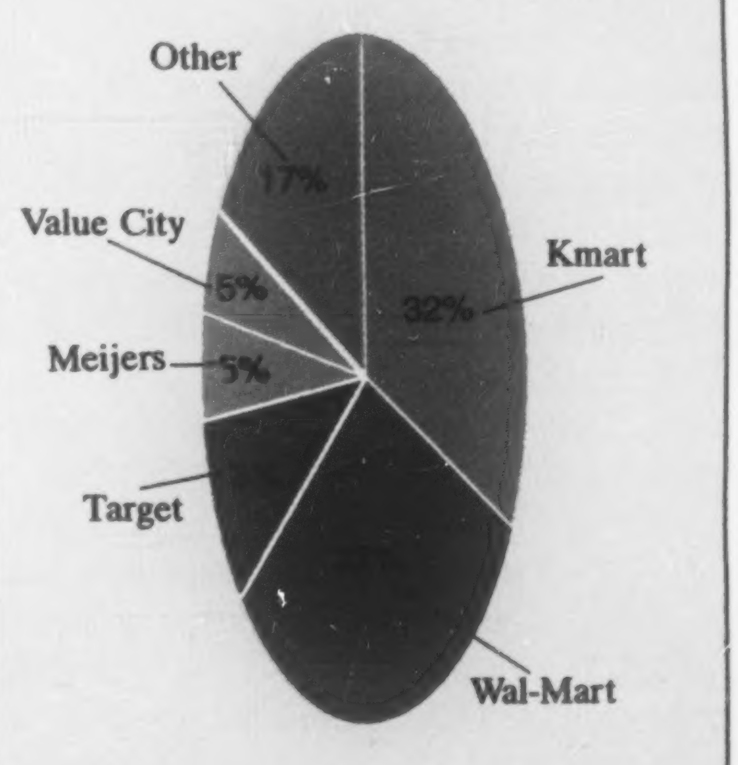
(What proportion of your household's women's wear expenditures are made at discount stores?)

	Discounter's share of women's apparel dollars
TOTAL	35%
AGE	
21-34	40%
35-54	37%
55+	27%
INCOME	
Under $30K	43%
$30K-$49K	33%
$50K+	33%
HOUSEHOLD SIZE	
1 person	30%
2-3 people	37%
4+ people	35%
EDUCATION	
High school or less	34%
Some college	37%
College graduate	36%
OCCUPATION OF HOUSEHOLD HEAD	
Management/ Professional	31%
White collar	43%
Blue collar	39%

Men's wear

Kmart and Wal-Mart are neck-and-neck

(Where did you make your last apparel purchase?*)



*Based on on household heads who made their last men's wear purchase at a discount department store.

Discounter's garner about a third, 30%, men's wear expenditures

(What proportion of your household's men's wear expenditures are made at discount stores?)

	Discounter's share of men's apparel dollars
TOTAL	30%
AGE	
21-34	34%
35-54	30%
55+	23%
INCOME	
Under $30K	46%
$30K-$49K	33%
$50K+	22%
HOUSEHOLD SIZE	
1 person	36%
2-3 people	27%
4+ people	33%
EDUCATION	
High school or less	29%
Some college	35%
College graduate	33%
OCCUPATION OF HOUSEHOLD HEAD	
Management/ Professional	19%
White collar	28%
Blue collar	34%

Source: Leo J. Shapiro and Associates.

Discount Barriers Crashing Down

Consumer Buying Study Shows that Specialty Discount Stores and Hybrid Concepts are Closing the Gap Between All Retail Segments

At one time everyone knew the difference between a discount store, a drugstore, a supermarket, a department store, as well as a specialty store.

Today, with the advent of new specialty discount stores and hybrid concepts that combine aspects of the aforementioned traditional retail channels, the boundaries between the myriad types of retail concepts are crashing.

A new study on consumer buying behavior, conducted by Leo J. Shapiro & Associates for *DSN*, documents today's blurring of retailing. The study, conducted by the venerable Chicago-based research firm, also reveals discount stores' market share in 15 major product categories and identifies key demographic characteristics of discount store shoppers in each of those categories.

Discount retailers encompass a group of outlets that includes, but is not limited to, discount department stores, specialty discount stores, and membership warehouse clubs.

However, the definition of a discount store expands, at least in consumers' minds, depending upon the type of product the shopper is thinking of purchasing. When buying clothing, for example, off-price apparel retailers and manufacturers' outlets are discount retailers, according to consumers.

When buying home or personal electronics, a very high 19% of consumers view full-price department stores as discounters. In the same category, Sears, which has a high profile as a discounter in men's apparel, is seen as an electronics discounter by only 4% of consumers.

Of course, there is no question that many stores are almost universally considered discount retailers by consumers. Wal-Mart and Kmart, the two largest retailers in the United States, as well as Target, are all recognized as discount retailers by the U.S. population. Warehouse clubs and vendor outlet stores are considered discount retailers by more than 90% of consumers.

However, in addition to one in five consumers buying home electronics from a full-price department store describing that store as a discount retailer, about 10% of those buying bed & bath, children's and men's wear called the traditional full-price department store a discounter.

Another example of blurring: More than 90% of consumers recognize deep discount drug chains like Phar-Mor, Drug Emporium and F&M as discounters, and nearly half described conventional drug store chains like Walgreens as a discount store when they purchase such items as personal care products and non-prescription medicine.

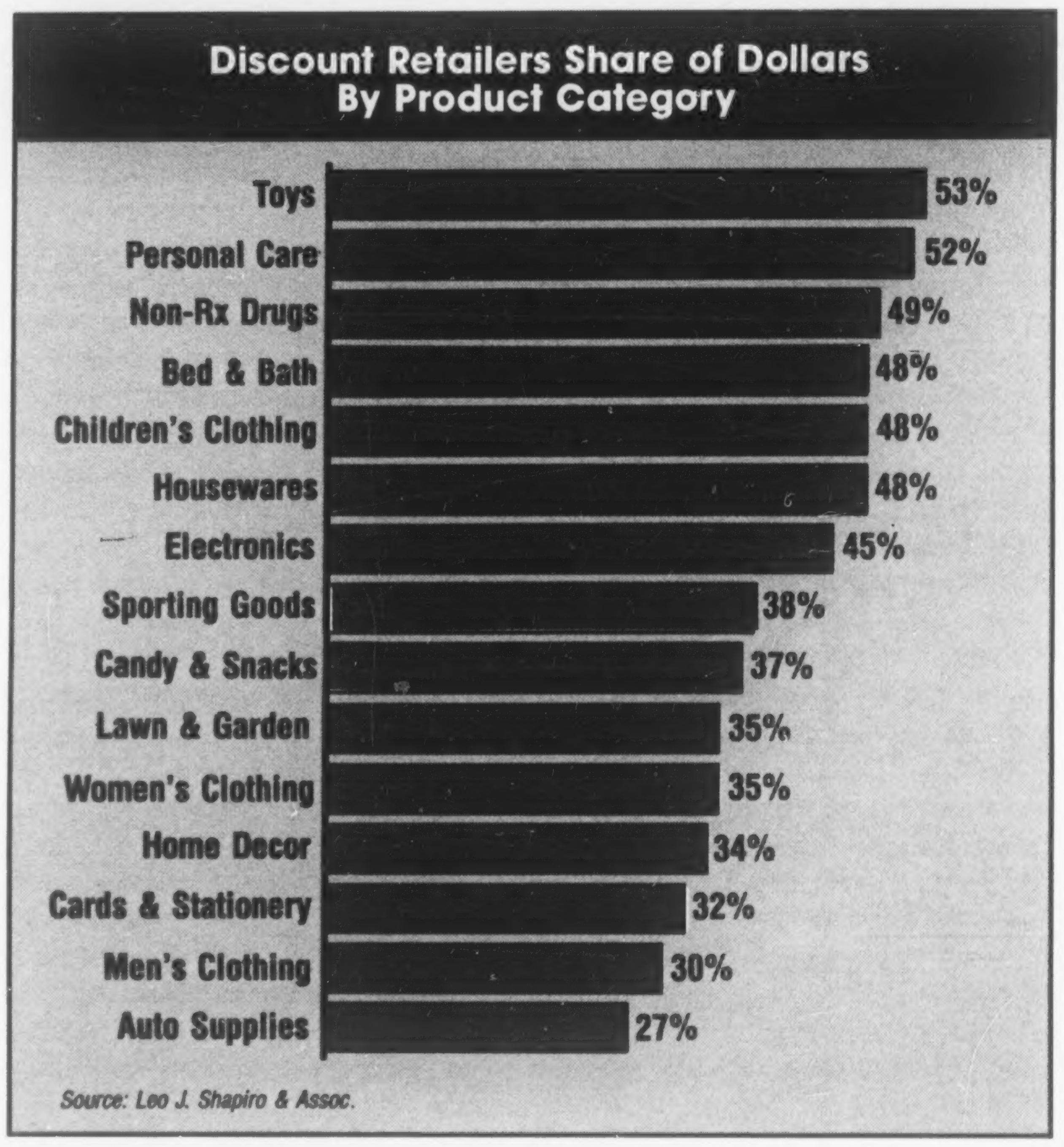
A couple of surprises in toys and electronics: only 40% of consumers buying toys described Toys "R" Us as a discounter (despite its everyday low prices) and only 58% defined Circuit City as a discounter. Apparently, consumers are less inclined to think of a store as a discounter if it carries a wide selection of merchandise.

Because the definition of a discounter can vary by product category, consumers' mixed view of a full-price department store offers some potentially important competitive points. Department stores' relatively high perception among consumers as a discounter of home electronics goods can be traced to changes in the way that the retail channel now merchandises the category. For the department stores that are still in electronics, the new strategy is narrow selection and blow out prices. "The competitive potential of their strategy remains to be discovered as more becomes known about the appeal of shopping in a mixed [discount and full-price] environment," noted George Rosenbaum, president of Leo J. Shapiro & Assoc.

"Department stores have a long tradition to draw on if they pursue this [discounting] direction by going back to their main floor and budget basement merchandising experience," he added.

Sears, despite its overhaul to be more competitive on an everyday basis with discount stores, is defined as a full-price retailer by consumers almost as often as department stores. In electronics, i.e., Brand Central, just 4% of consumers consider Sears a discounter, fewer than for department stores.

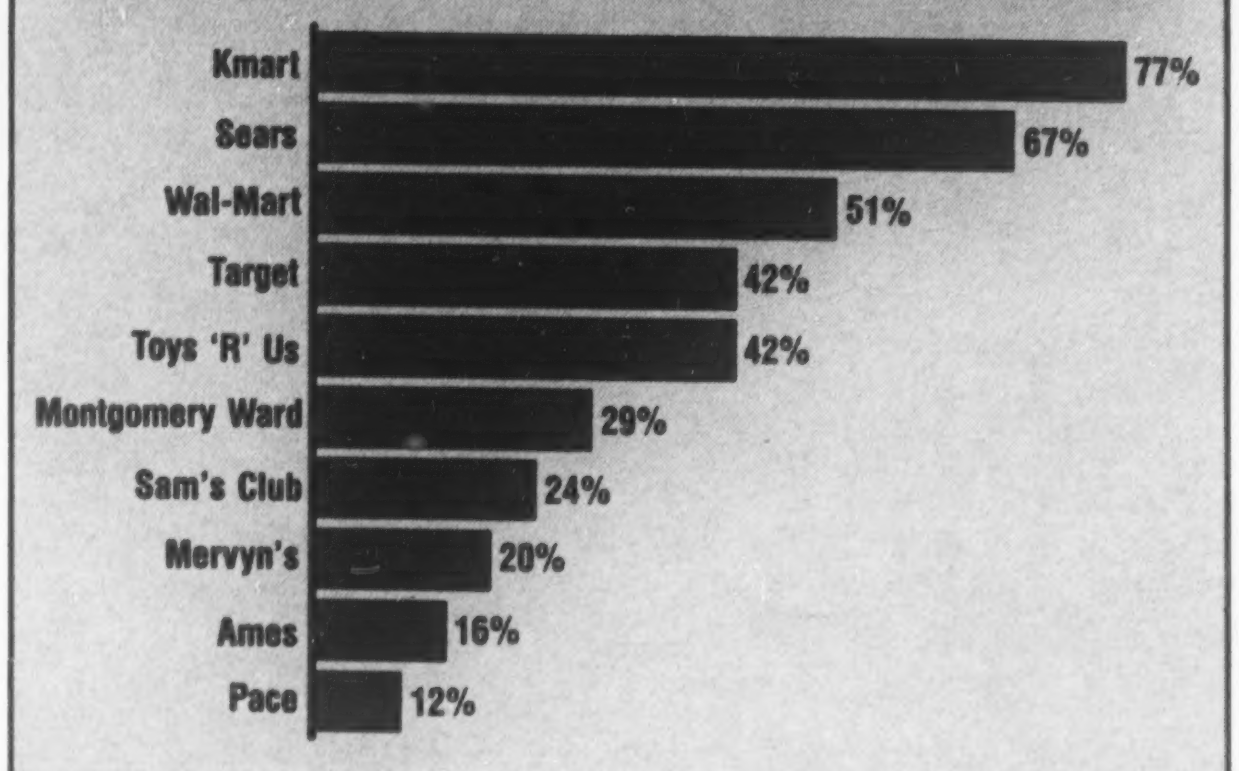
(Continued on page 35)



Source: Leo J. Shapiro & Assoc.

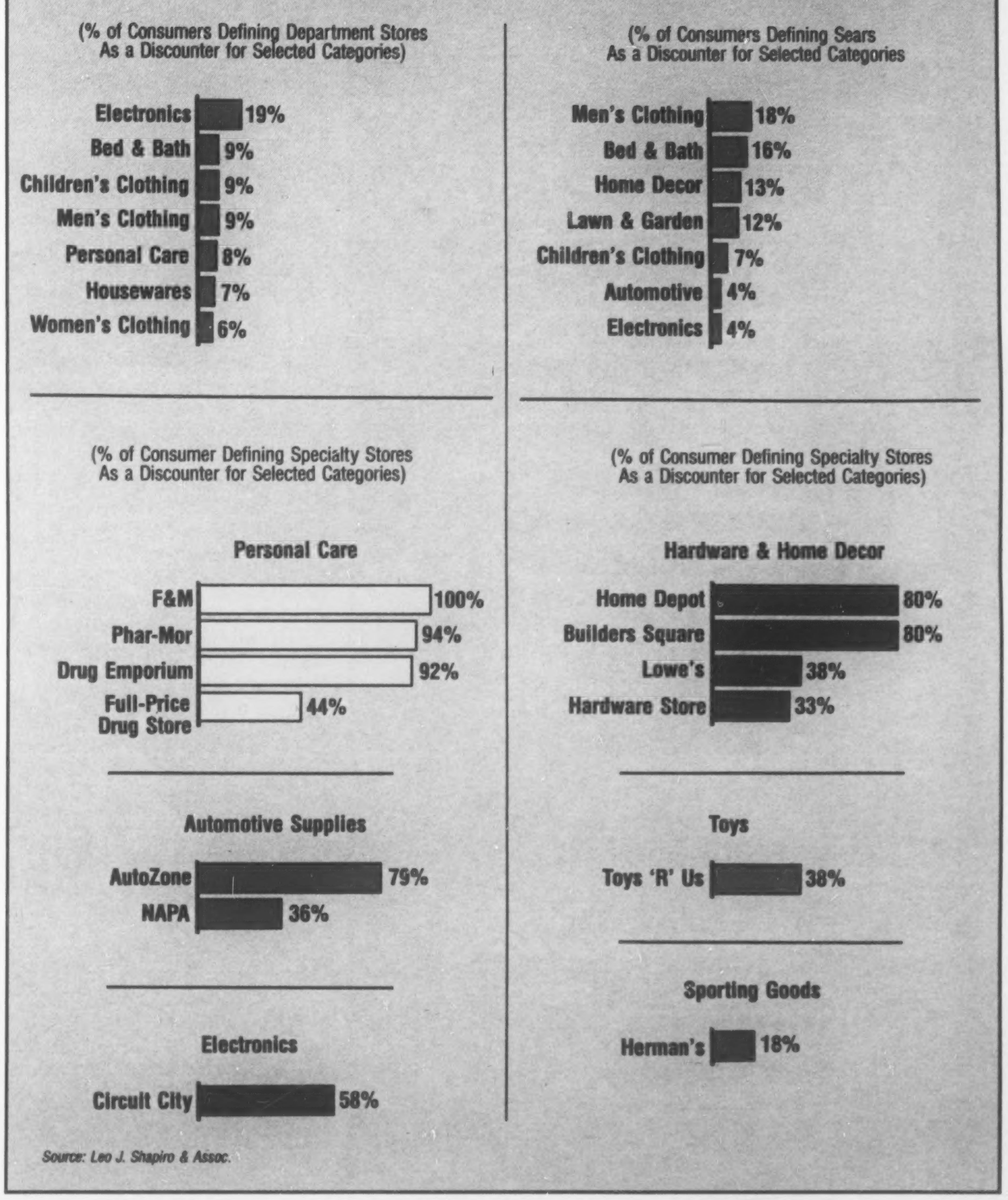
Study: Discounting Pervasive in Retailing

America's Most Popular Stores
(% Shopped in Past Year)



Source: Leo J. Shapiro & Assoc.

Who Is a Discounter?



Source: Leo J. Shapiro & Assoc.

(Continued from page 33)

Rosenbaum attributes the blurring of definitions between discounters and full-price stores as partly a consequence of consumers' deep involvement with both types of retailing. For example, 88% have shopped at a conventional department store in the past year and 86% have shopped at a discount department store. Moreover, consumers increasingly experience a variety of channels of discount shopping.

In the past year, nearly two in three consumers have shopped at a discount drug store, nearly half at a warehouse club, 43% at a vendor outlet store, and 22% at a catalog showroom. Nearly two-thirds within the past year have visited an off-price apparel store. And, as conventional retailers, such as department stores and drug stores, act to meet price competition in selected merchandise categories, they effectively become identified as a discounter by the consumer.

Since competition varies greatly by product category, traditional ways of looking at market share are less apt to be useful in today's retail landscape. Clearly, the better way is to examine market strength by product category.

Discount department stores are attracting more than one-third of store visits for children's clothing, bed & bath products and housewares, but fewer than 20% of trips for non-prescription drugs, cards & stationery, hardware & home decor and auto supplies.

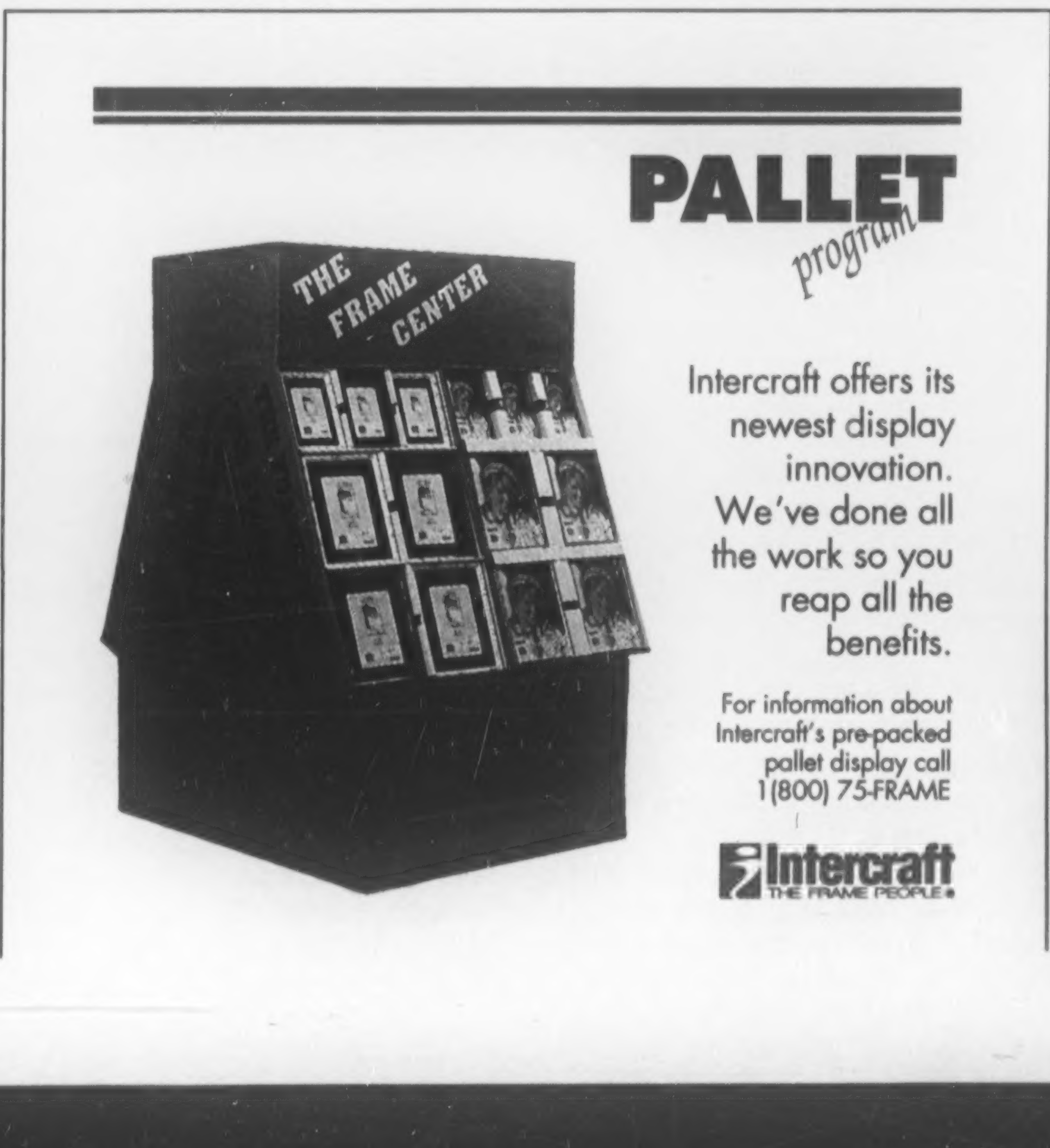
Warehouse clubs' greatest strengths are in electronics, housewares, candy & snacks, and personal care products.

Methodology

This comprehensive study on discount buying in the United States is based on interviews with 1,712 households, projectable to all continental U.S. households who are telephone subscribers. Conducted by phone between November 1991 and January 1992, the survey examines purchasing for 15 product categories commonly sold in discount stores.

For each category, households estimated their annual expenditures and the proportion of their spending done at discount retailers. Consumers also reported the store at which they made their most recent purchase in each merchandise category. When the store was named, consumers were asked whether or not it is a discount store.

The sample was designed to provide a base of users for each category ranging from 325 to 1,200. At the higher end of this range, sampling error is 3%; at the lower end, 6%.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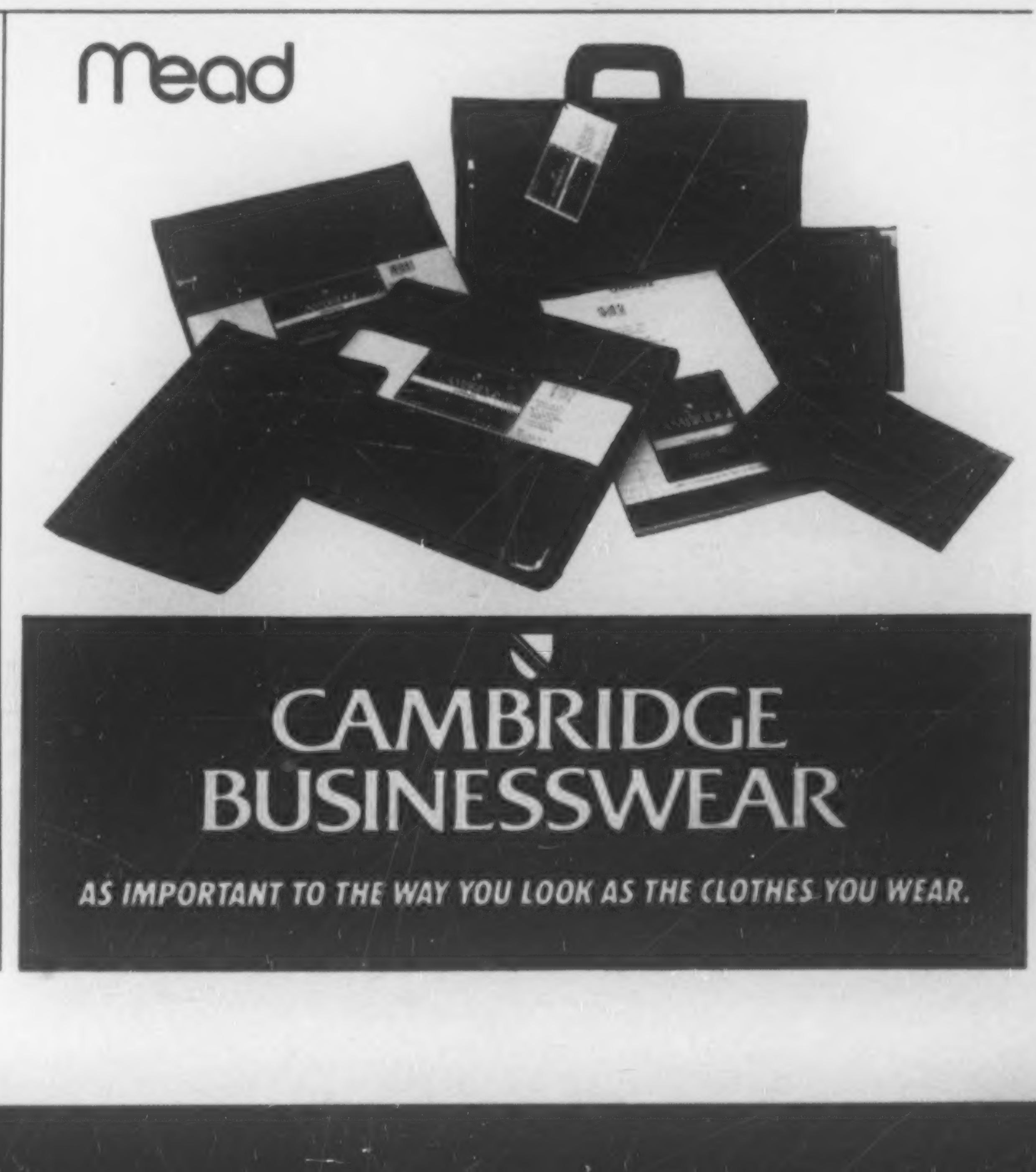
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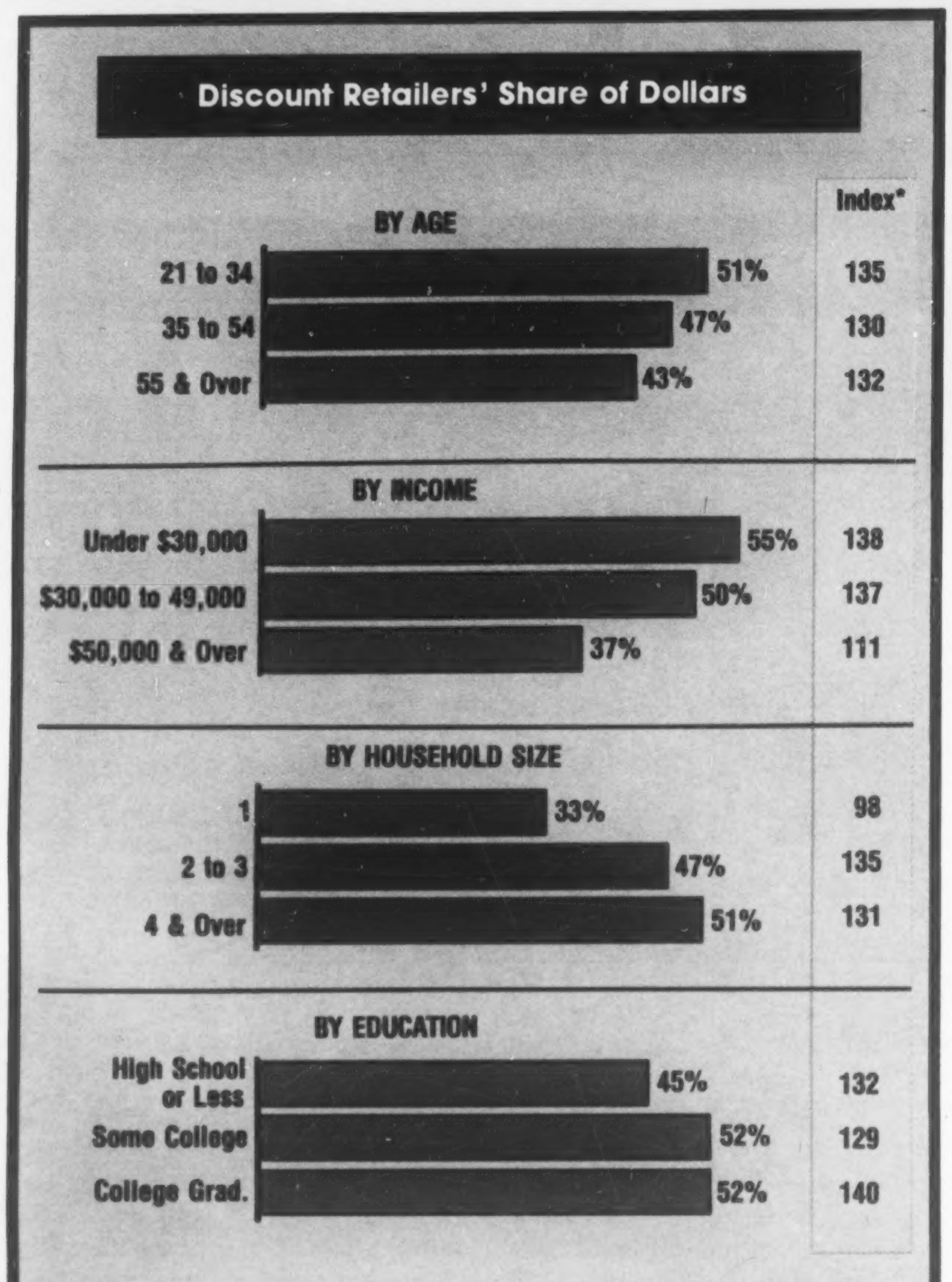
CHILDREN'S WEAR

Shoppers of All Incomes, Backgrounds Look To Discounters for Kids' Clothing Bargains

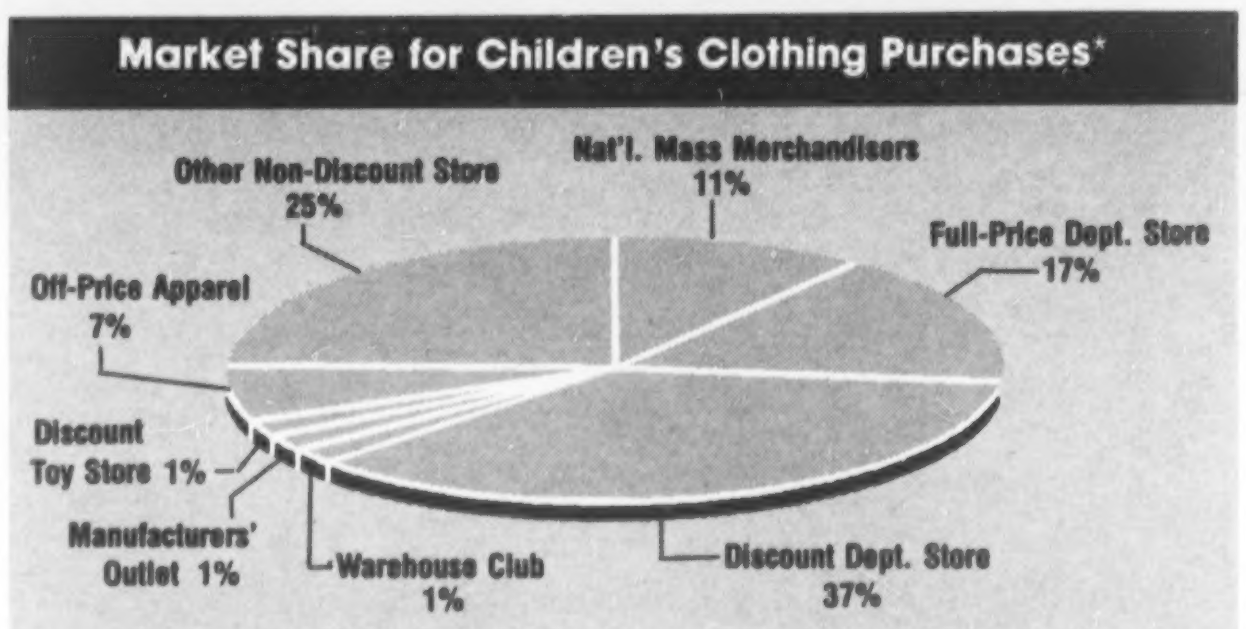
Discount Retailers' Share of Dollars



*Index represents children's wear share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

Market Share for Children's Clothing Purchases*



*Type of store in which consumers who bought children's clothing in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Discount stores are the place to shop for children's wear. A full 48% of dollars spent in the category were spent in stores that consumers view as discount outlets.

Consequently, discount department stores captured the largest share of consumers' last children's clothing purchases (37%), followed by full-price department stores (17%), national mass merchandisers (11%) and off-pricers (7%).

It seems that the hunt for a children's wear bargain transcends income, age and educational levels, as well.

The demographics of the children's wear shopper fall well into the standard of the discount store customer. However, a significant number of respondents had higher income and educational levels than those generally attributed to discount shoppers.

Of all the survey respondents who purchased their last article of children's clothing at a discount department store, 44% were between the ages of 21 and 34, with another 40% falling between the ages of 35 and 54.

A full 49% of all those who made their last children's wear purchase at a discount department store earned under $30,000. However, another 34% claimed incomes of between $30,000 and $50,000.

In addition, 53% had a high school education or less; but another significant number, 47%, reported that they had some college education or were college graduates. Additionally, 49% of respondents had a household that was comprised of 4 or more persons.

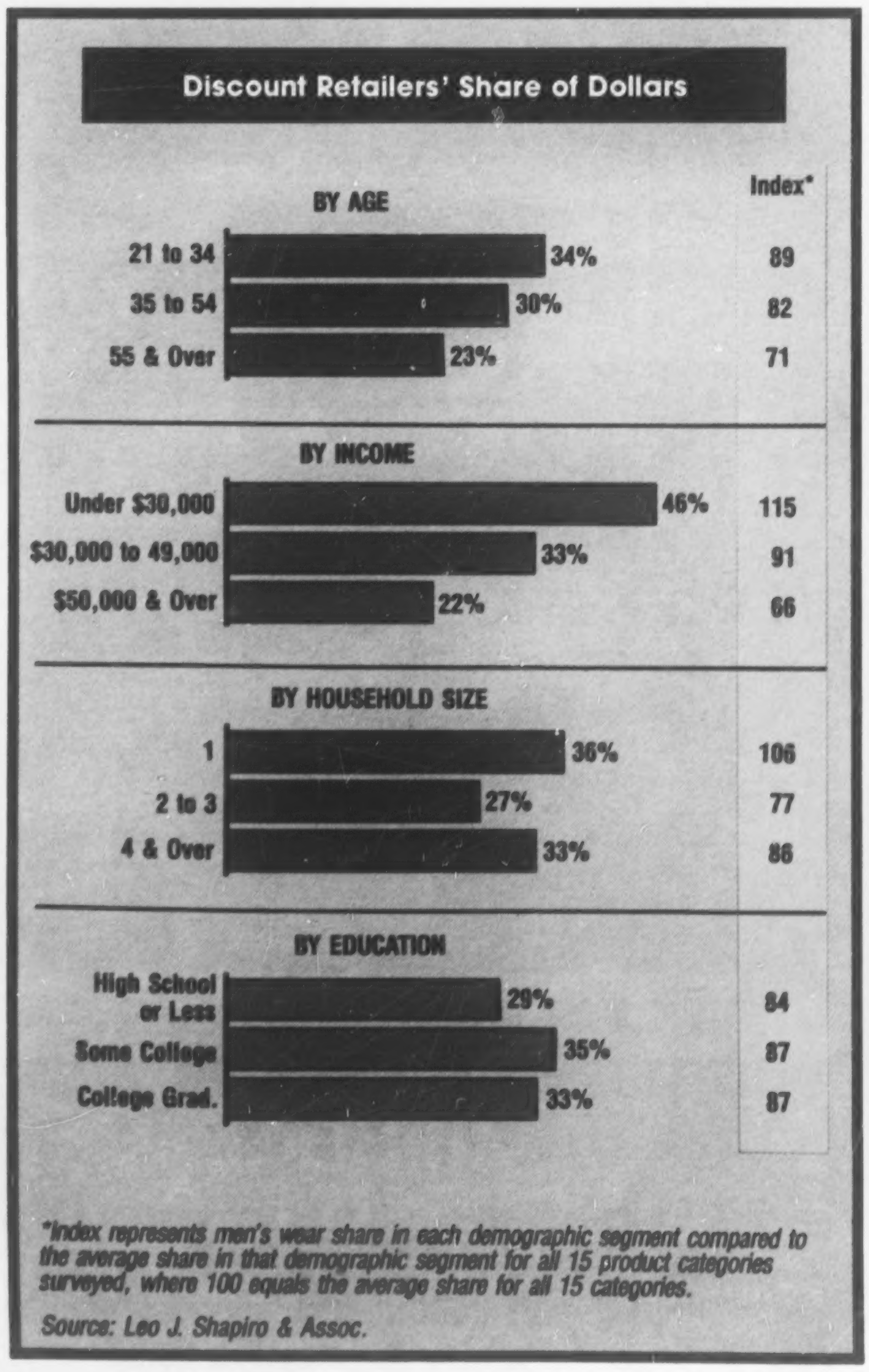
Respondents in the higher income and educational tiers were the ones who were most likely to buy in off-price and specialty stores.

While retailers such as Kids "R" Us (3%), T.J. Maxx (2%) and Marshall's (1%) were named by shoppers as stores in which they made their last purchase of children's clothing, the full-line discounters were by far the more frequently mentioned, led by Wal-Mart (14%), Kmart (10%) and Target (4%).

MEN'S WEAR

Discounters Remain Weak as Consumers Turn to Specialty Stores for Men's Clothes

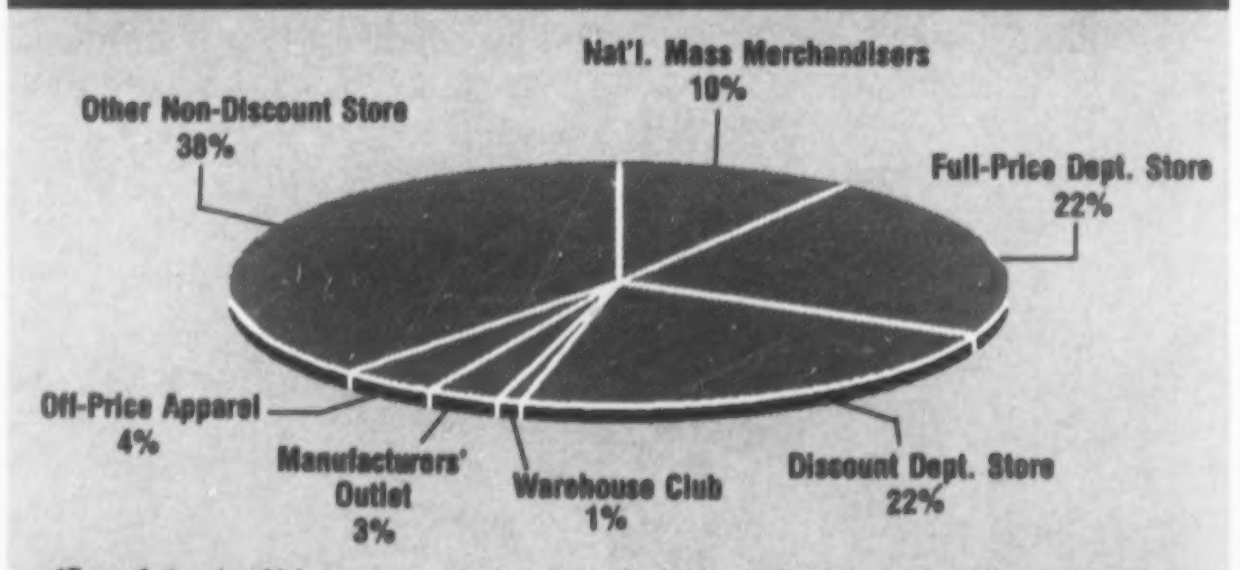
Discount Retailers' Share of Dollars



*Index represents men's wear share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

Market Share for Men's Clothing Purchases*



*Type of store in which consumers who bought men's clothing in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Among the 15 product categories surveyed, men's wear was the hardest sell for discount stores. Men's wear scored lowest in consumer dollars spent for the category at discount stores.

Discount retailers, as defined by the consumer, garnered only a 30% share of all dollars spent on men's clothing.

The survey found that 22% of the consumers who purchased men's apparel in the past year made their last purchase at a discount department store, the same percentage that made their last purchase at full-price department stores.

However, 39% of men's wear purchasers made their last buy in other non-discount stores, primarily full-price specialty stores. And 10% of those who purchased men's wear in the past year made their last purchase at a national mass merchandiser such as Sears, Montgomery Ward or Mervyn's.

On a chain basis, both Kmart and Wal-Mart attracted 7% of consumers who bought men's wear in the past year, followed by Sears (5%).

In general, in comparison to women's and children's wear, fewer shoppers reported making their last men's wear purchase at a discount clothing store or at an off-pricer.

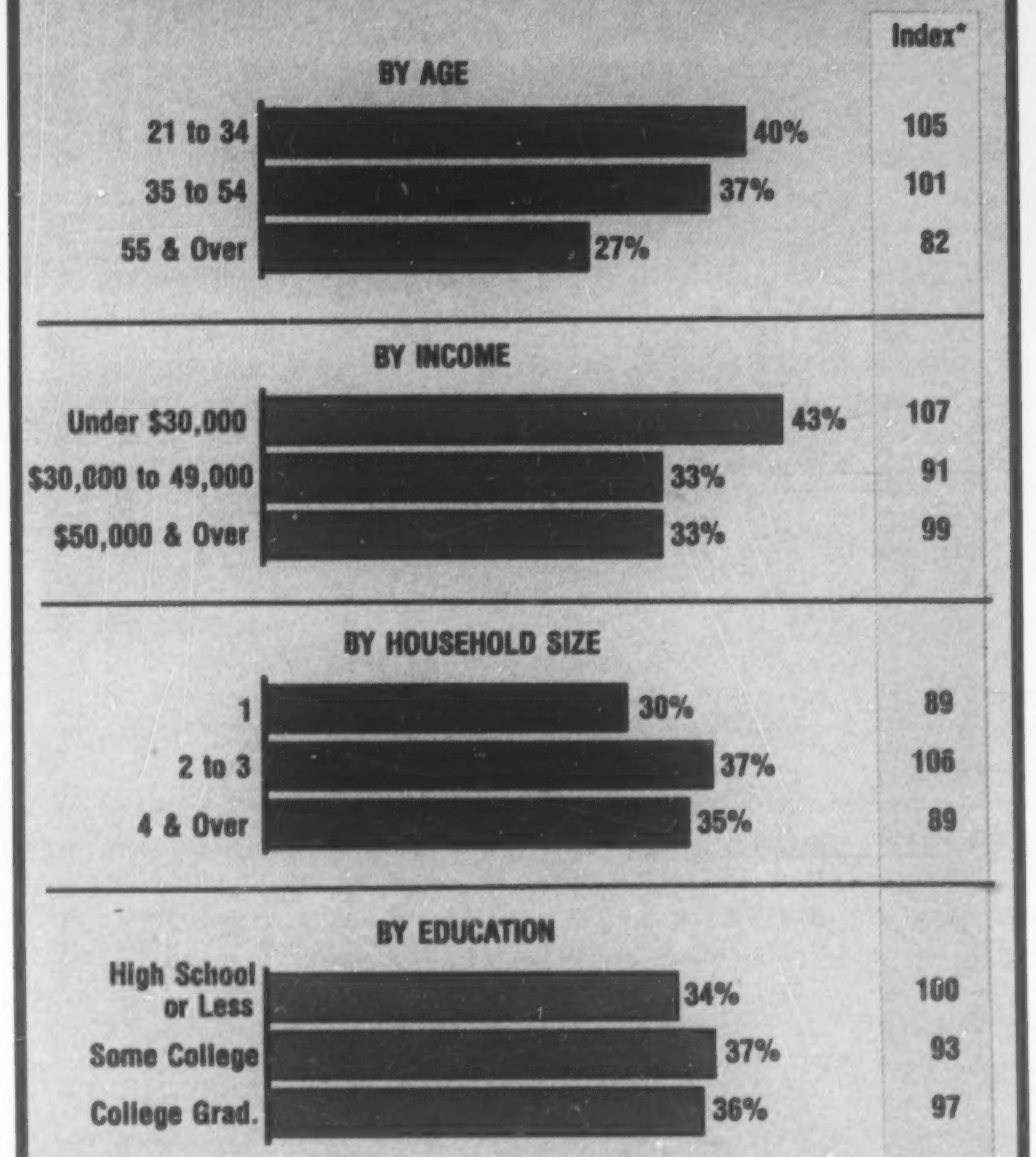
According to the survey results, the discount men's wear shopper is more likely to be between the ages of 21 and 34 with an income of less than $30,000. Though a higher percentage of shoppers had some college education, most were in blue collar jobs.

Surprisingly, discount stores in the Northeast—discounters as defined by consumers—captured the largest share of men's wear dollars.

The discounters in the Northeast had a 32% share of all the consumer dollars that were spent on men's clothing. This number was higher than those for both children's clothing and women's wear in the region.

Western consumers spent the least of their men's wear dollars at stores that they consider to be discounters.

Discount Retailers' Share of Dollars



*Index represents women's wear share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

WOMEN'S WEAR

Off-Pricers, Manufacturer Outlets Are Big Winners With U.S. Women

Specialty discount clothing stores, like off-price apparel chains, had their strongest showing in the women's wear category.

Ten percent of all respondents said they made their last women's wear purchase at an off-pricer. This was better than reported for either men's or children's wear. Also receiving a boost was manufacturers' outlet stores. Though only 2% of consumers said they made their last purchase of women's wear at an outlet store, that figure was better than the manufacturers' outlet stores showing in either men's or children's apparel.

The trend to off-price chains like T.J. Maxx and Marshalls was especially prevalent in the Northeast, where 15% of shoppers said they made their last women's wear purchase in an off-pricer and 3% who named a manufacturer outlet.

Overall, 35% of all women's wear dollars are spent in stores that consumers defined as discount retailers.

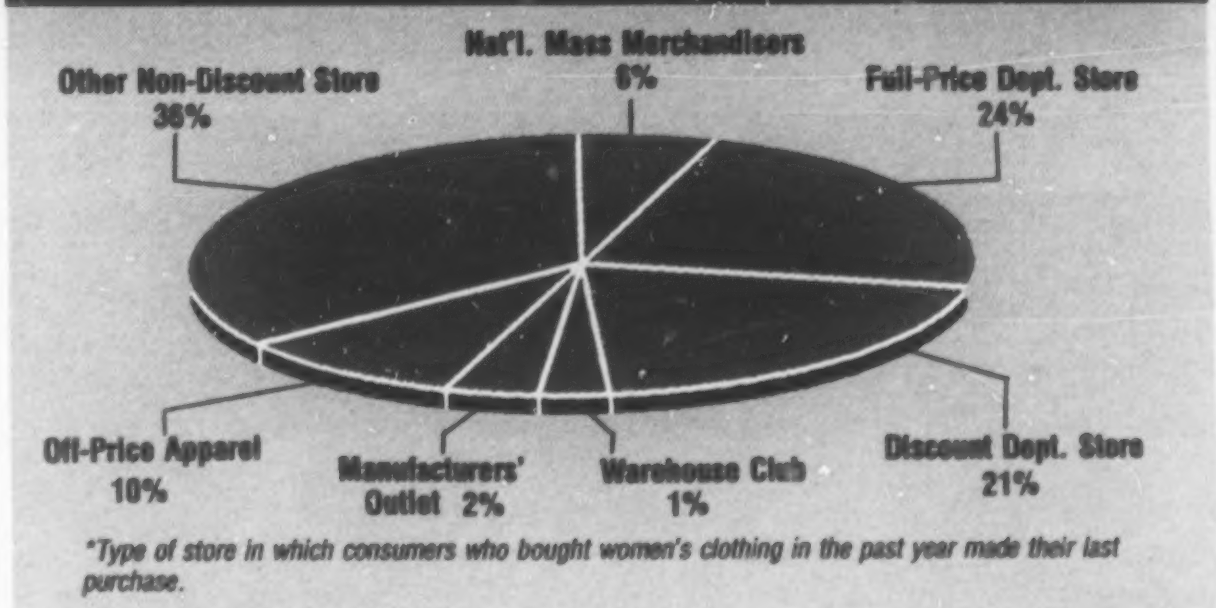
When asked about their last purchase, 21% shopped a discount department store; and 24% shopped a full-price department store. Full-price department stores fared better in the women's wear category than other apparel areas.

The demographics of shoppers varied when comparing discount department stores and off-pricers.

Of customers that last purchased women's wear at a discount store, 45% were between the ages of 21 and 34. Income levels of under $30,000 were reported by 63% of the discount department store shoppers, who also were less likely to have an education beyond high school and more likely to hold a blue collar job.

As expected, the demographics for off-price clothing stores skew higher in age, income and education levels. A full 54% of those who made their last purchase in an off-pricer were between the ages of 35 and 54; 42% had an income of between $30,000 and $50,000; 45% were college graduates; 27% reported they were in a management/professional occupation.

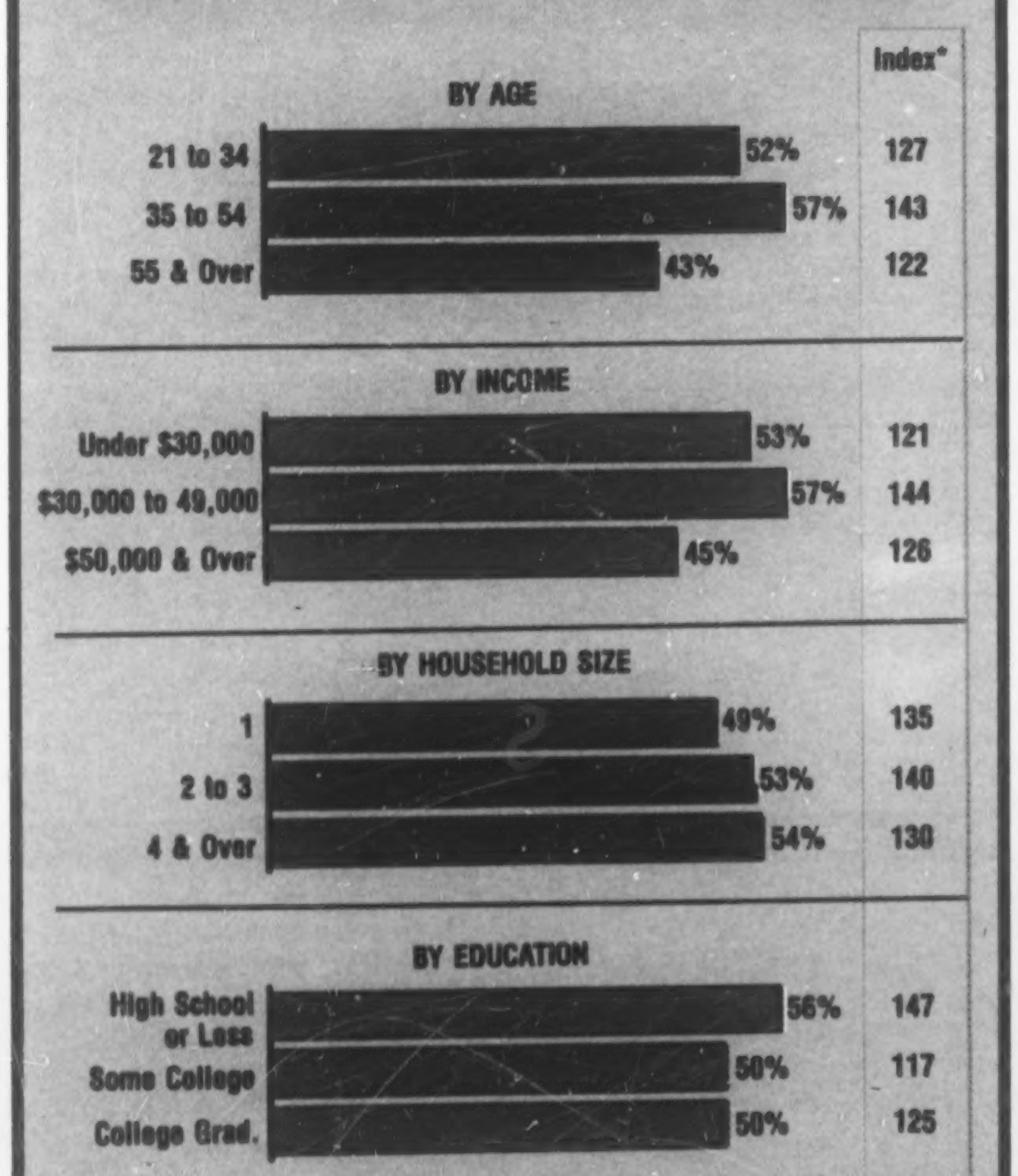
Market Share for Women's Clothing Purchases*



*Type of store in which consumers who bought women's clothing in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Discount Retailers' Share of Dollars



*Index represents personal care share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

PERSONAL CARE

Discount Department Stores Dominate Market Share, Demographic Appeal

Personal care products are one of the discount industry's most powerful departments.

Consumers estimated they spent more than five out of every ten personal care dollars at "a store that sells at a discount."

In contrast, discounters garnered less than $4 out of $10, on average, of the total amount spent on 15 product categories for this study.

More than one-fourth of all consumers identified a full-line discount department store as where they made their last personal care purchase. Over 40% named a store that would be classified as some form of discount retailer as the place they made their last purchase.

Discounters, as defined by consumers, captured more demographic groups for the category than was the average for all 15 departments researched.

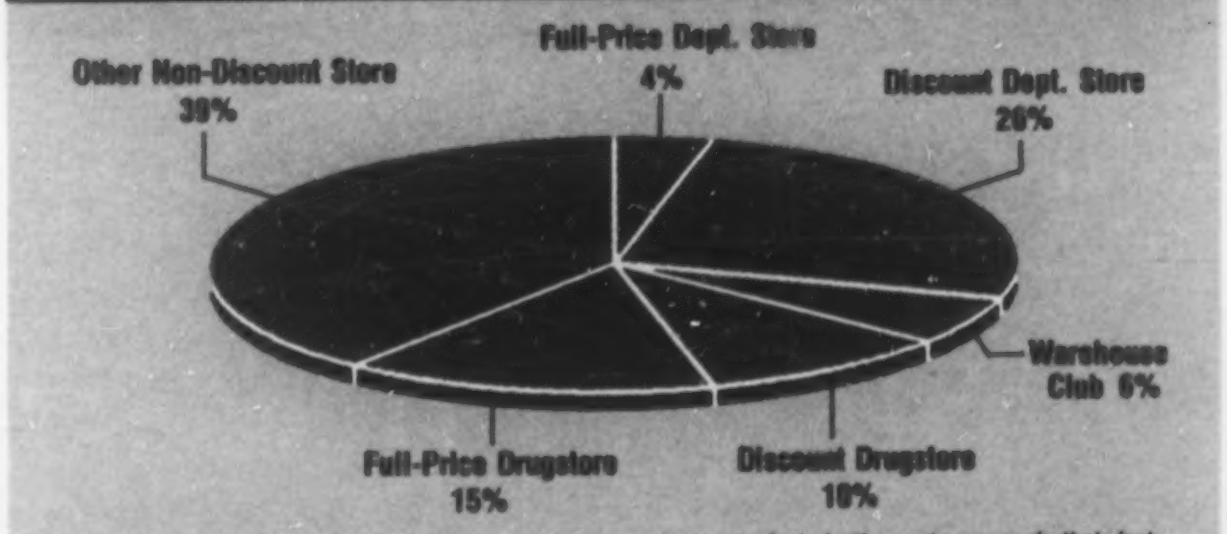
Individuals aged 35 to 54, those earning between $30,000 and $49,000 and people with no more than a high school level were drawn to some type of discount store outlet when shopping for personal care products.

While personal care is clearly one of the discounter's trump cards, grocery and convenience store retailers as defined by consumers were better at capturing the high-consumption 35 to 54 age group than full-line discounters (based on where they made their last purchase). Grocery/convenience stores were visited nearly twice as often as discounters among consumers earning $50,000 or more during their last personal care shopping trip.

Regionally, discounters were an especially strong personal care retailer in the North Central region of the country, where 65% of all dollars spent on the category went into discounter cash registers, far above the 41% average for all other categories sold in that region.

The relatively small and immature discount drug store industry was mentioned by one out of 10 people as being the store where they made their last personal care purchase.

Market Share for Personal Care Purchases*



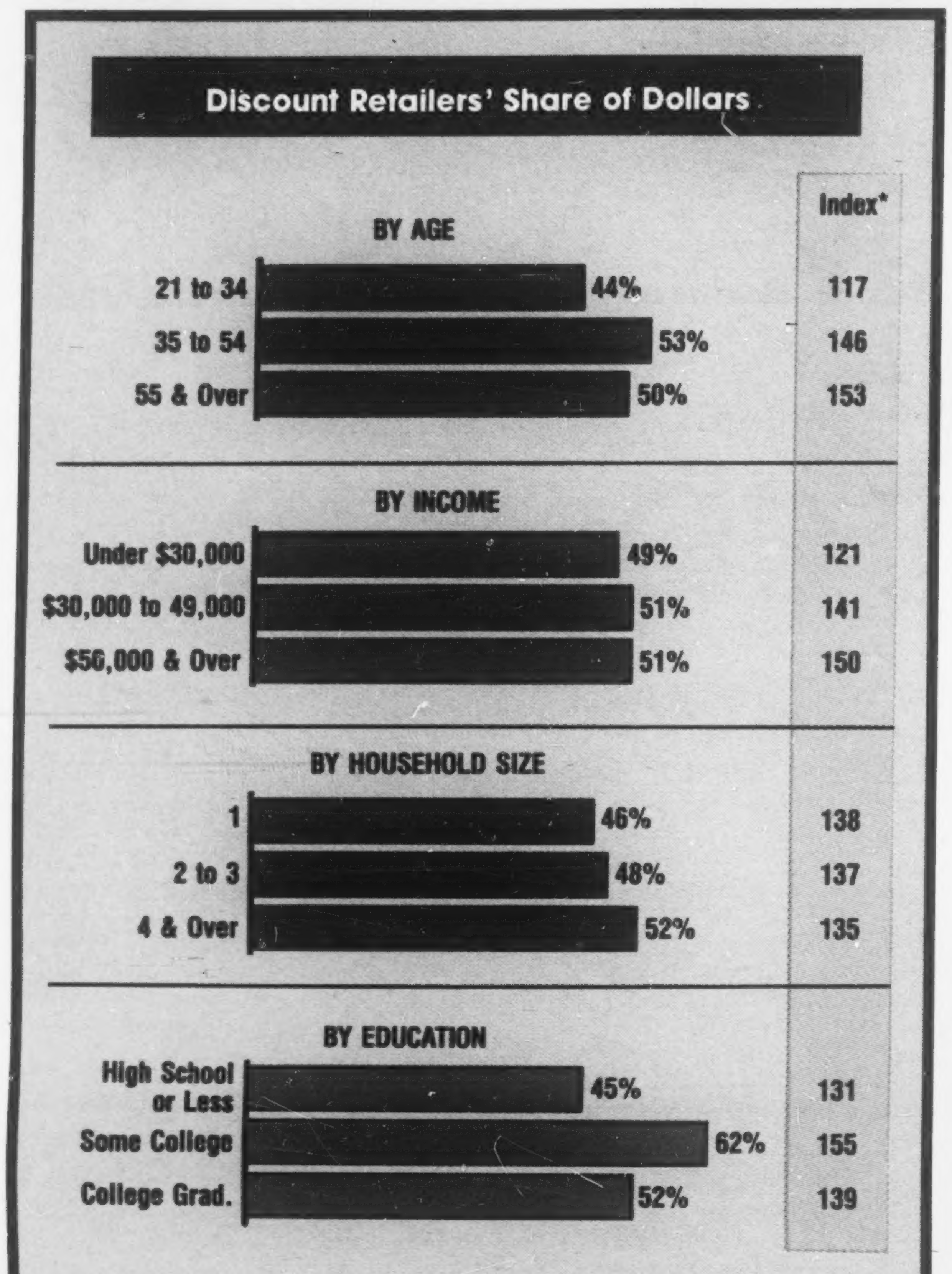
*Type of store in which consumers who bought personal care products in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

OVER-THE-COUNTER DRUGS

Drug Stores and Discounters Dominate Non-Prescription Drug Sales

Discount Retailers' Share of Dollars



*Index represents over-the-counter drug share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

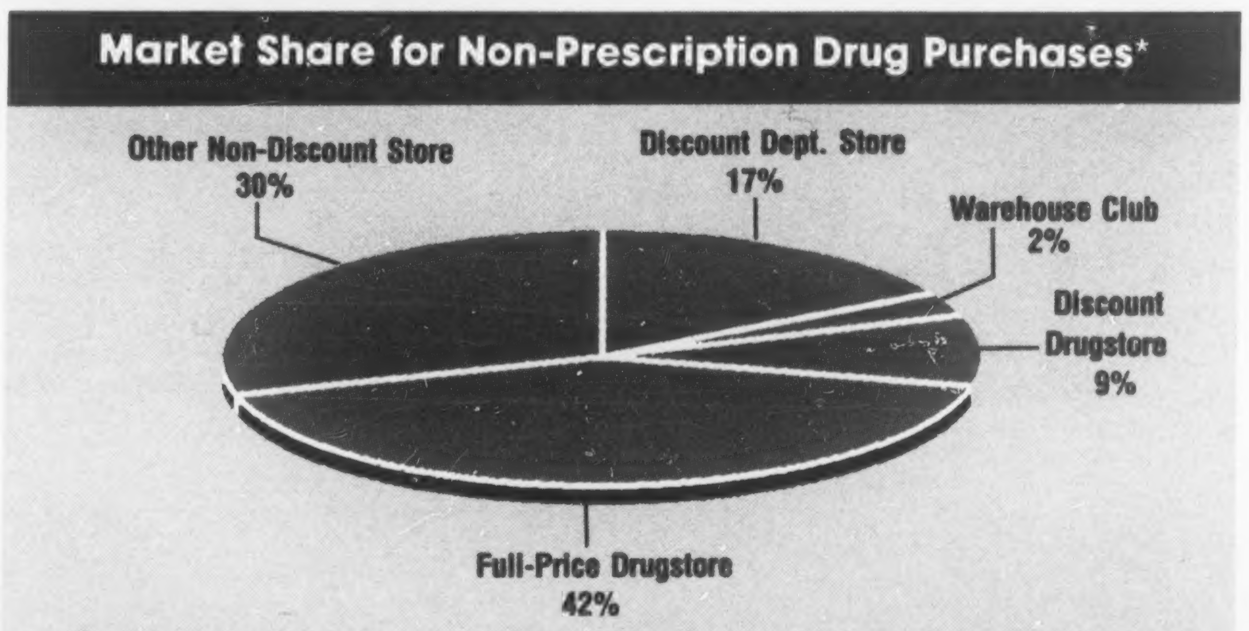
Discount merchants—discount stores, membership warehouses and discount drugstores—account for four of every 10 dollars spent for over-the-counter drugs.

That figure puts discounters behind full-price drugstores, which, as expected, hold the largest share, 42%, of the non-prescription medicine market, with supermarkets and convenience stores retaining the remaining 17% share.

But the purchasing disparity is greater than these statistics indicate. When consumers shop in a full-priced drugstore or supermarket, the chances are much greater that they will do so for OTC drugs than for any other general merchandise. The likelihood isn't as marked when examining buying patterns in discount retailers.

Full-priced drugstores accounted for 42% of shoppers' most recent purchase of non-prescription drugs, while only 7% of consumers visited these retailers on their most recent shopping trip. OTC medicine was the overwhelming draw for local drugstores, with 29% of consumers buying this merchandise on their last visit, against the 4% that bought any of the 15 products surveyed as their most recent purchase.

Market Share for Non-Prescription Drug Purchases*



*Type of store in which consumers who bought non-prescription drugs in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

For supermarkets, 17% of consumers cited OTC medicines as their latest purchase, compared with 8% going to a food store for any of the categories surveyed.

Among discounters, only discount drug stores show a similar trend: 9% buying OTC drugs against 2% overall. Phar-Mor ranked highest with 5% purchasing this merchandise vs. a miniscule 1% shopping this retailer overall.

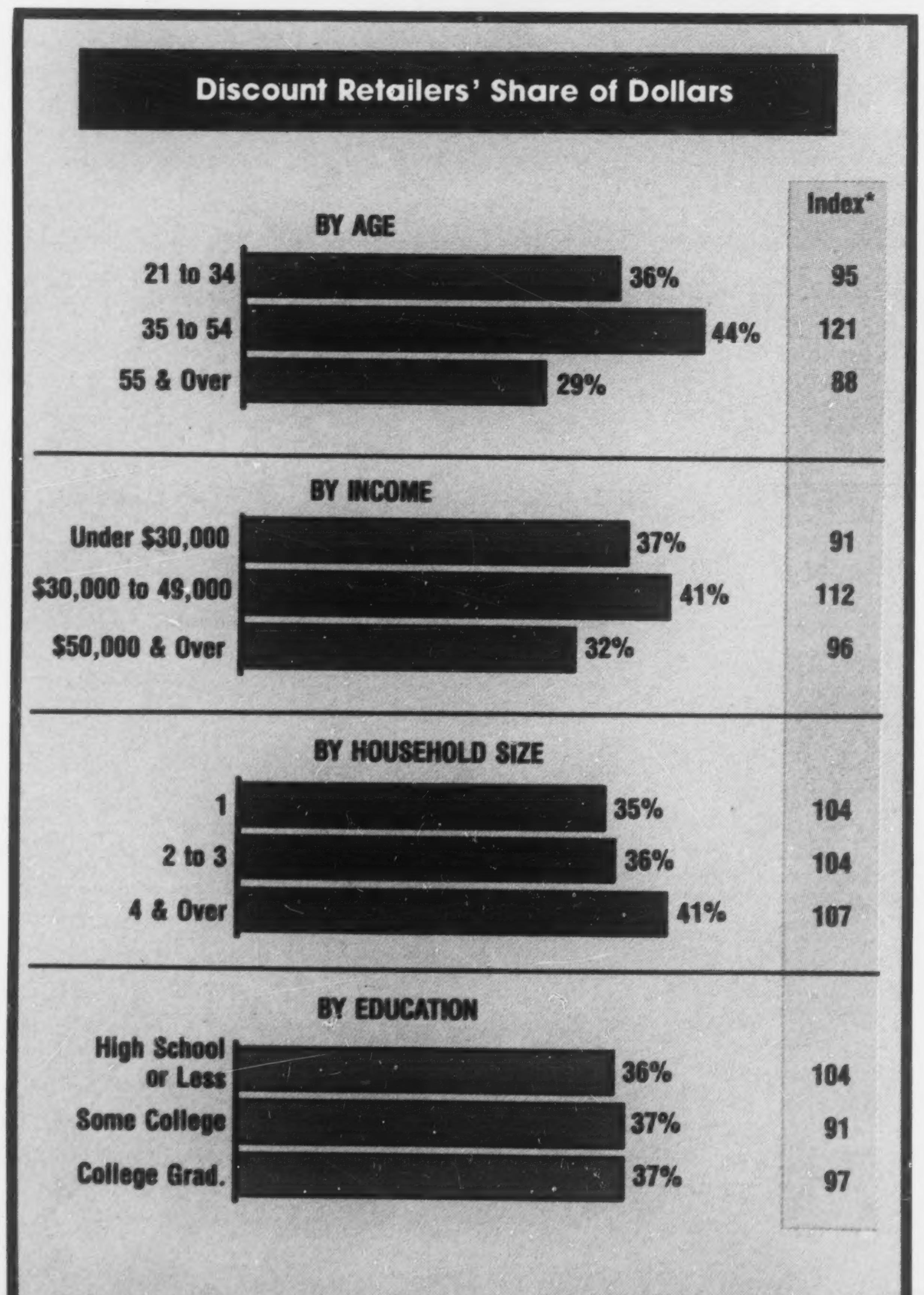
While 23% of shoppers visited a discount store for merchandise, only 17% noted OTC medicine as their most recent purchase. Wal-Mart ranked highest in this respect, with 10% citing the chain, while 3% went to a Kmart for non-prescription drugs.

Among wholesale clubs, OTC drug purchases at 2% was in line with overall buying behavior.

CANDY & SNACKS

Discounters, Discount Drug Stores, Clubs Give Supermarkets a Race

Discount Retailers' Share of Dollars



*Index represents candy & snacks share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

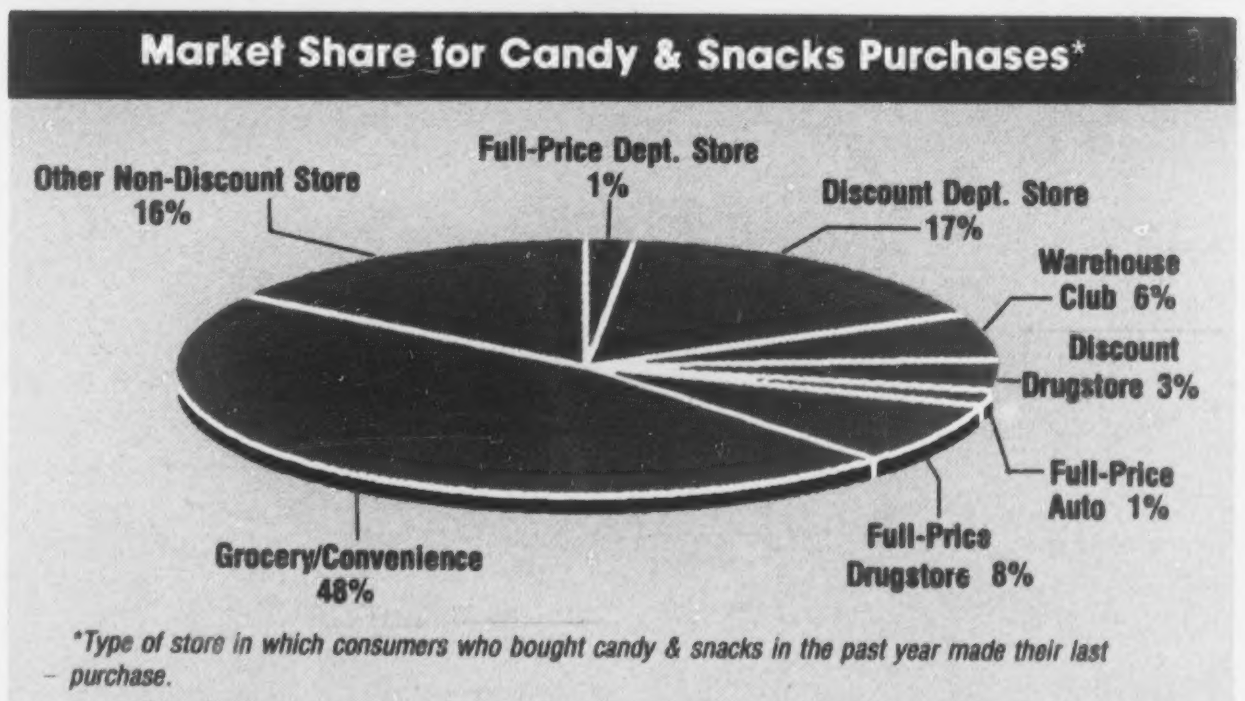
While supermarkets and convenience stores, as expected, are the dominant packaged candy and snack retailers, with half the market, discount merchants—discount department stores, membership warehouses and discount drugstores—accounting for 37% of the dollars spent on these products.

Within the discount selling arena, packaged candy and snacks is an especially vital category for membership warehouses. Of all consumers who bought these items in the past year, 6% made their last purchase at wholesale clubs, a higher ratio than the 3% of consumers overall whose last purchase was made in a club.

The packaged candy and snack ratio was lower for discount stores. Only 17% of the shoppers noted their last purchase for this merchandise was made at a discount store, against the 23% who overall visited a discounter for their most recent shopping. The discount drugstore went up one percentage point to 3%.

Eight percent of shoppers made their last purchase of packaged candy and snacks at a full-priced drugstore, compared to 7% of consumers whose most recent shopping was at this type of retailer.

Market Share for Candy & Snacks Purchases*

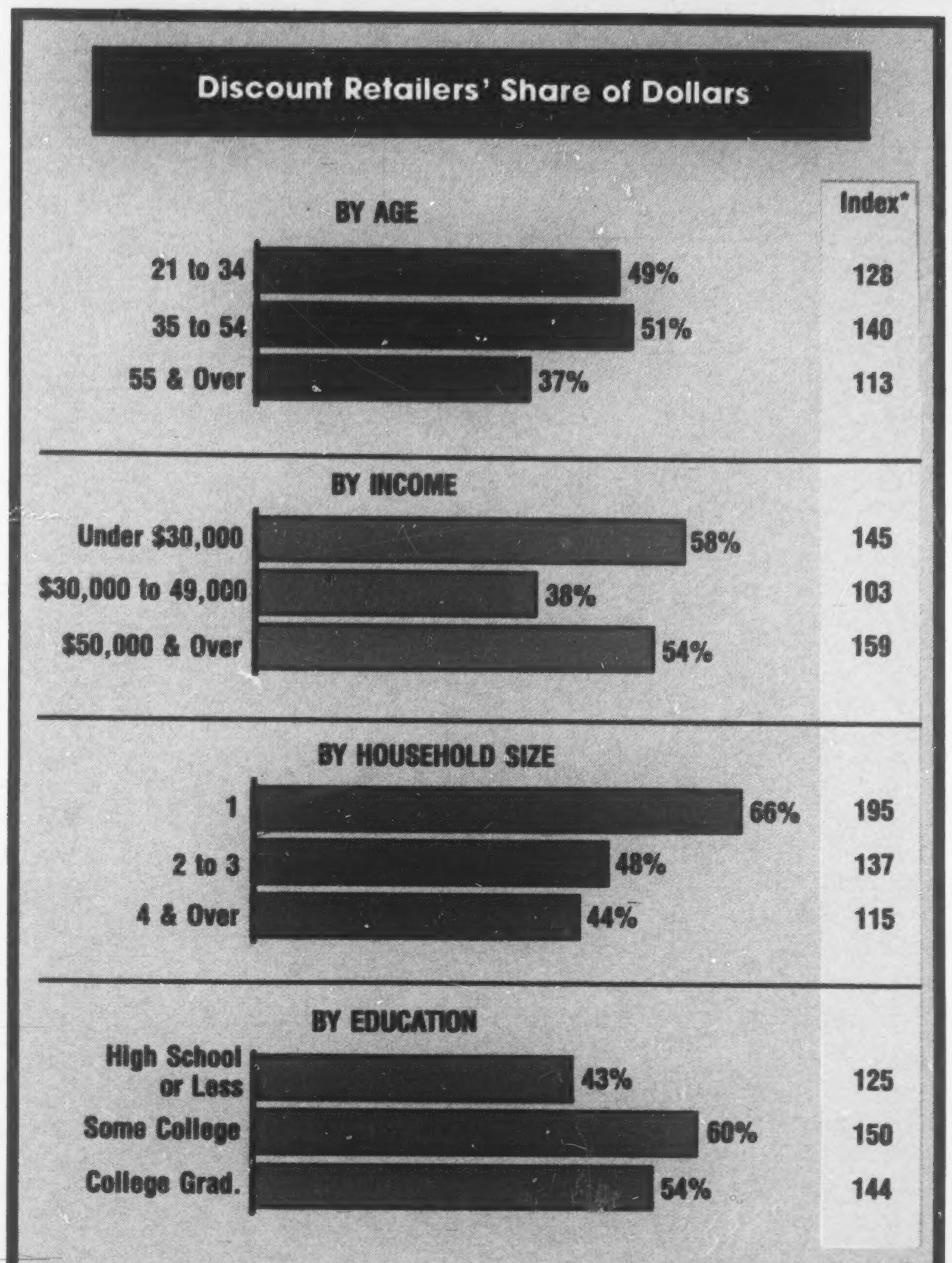


*Type of store in which consumers who bought candy & snacks in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc. for DSN

Among specific discounters, Wal-Mart (8%) and Kmart (4%) captured the highest percentage of sales, followed by Sam's Club (2%) and Meijer and Phar-Mor, each at 2%. Walgreens, at 2%, was the chain leader among full-price drugstores, but local drugstores overall accounted for a greater share, 4%.

Discounters' share of packaged candy and snack sales was strongest in the North Central states area, due in great part to the volume recorded in this region by Wal-Mart, followed by the West Coast, where membership warehouses, specifically Costco, Pace and Price Club, made a great impact on volume. The south came next, with Wal-Mart, Sam's and Kmart the key merchants. Trailing was the Northeast, a region without any specific dominant retailer.



*Index represents housewares share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

HOUSEWARES

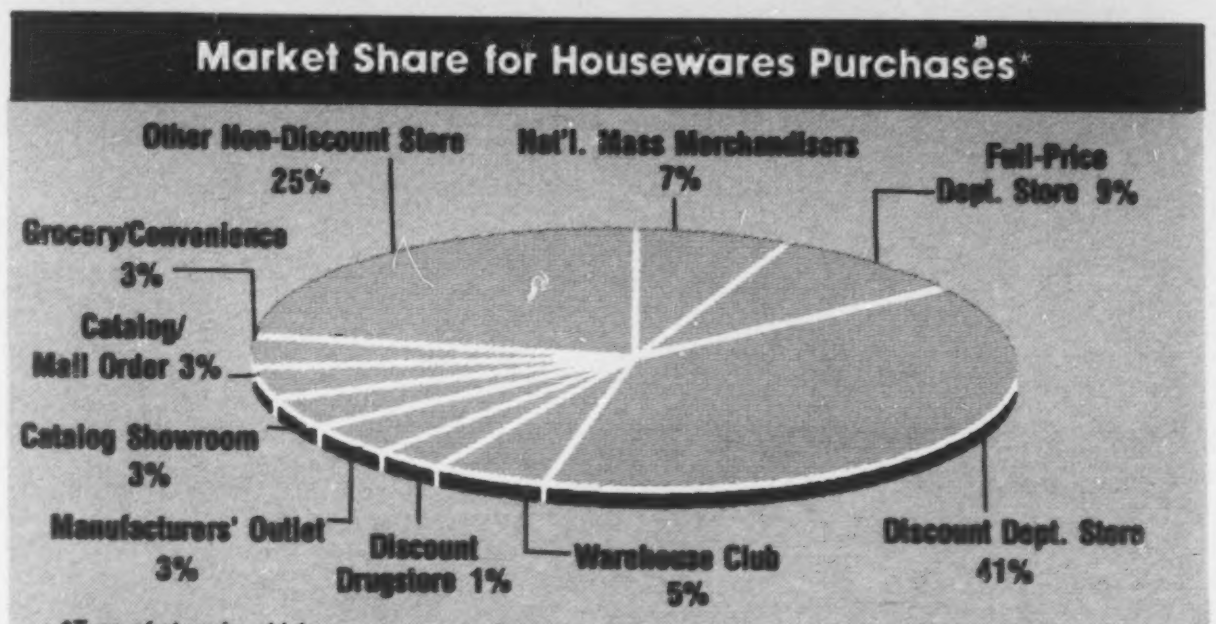
Discount Department Stores Dominate Market Share Among Housewares Retailers

Consumers last year spent almost half their housewares dollars in stores they consider discount retailers. That's better than the average share (36%) discount retailers garnered for all 15 product categories *DSN* surveyed.

Discount department stores were the dominant segment among all discount formats, with 41% of consumers naming a full-line discounter as the place they made their last housewares purchase.

Warehouse clubs accounted for 5% of last housewares purchases, nearly twice the number this segment attracted as a whole. Discounters as a whole were named by more than half of those surveyed. Among chains, Wal-Mart led with 15% of shoppers naming it as the place they last purchased housewares, followed by Kmart, 11%, and Sears and Target, each with 5%.

Affluent singles who have achieved professional or management positions or in college form a demographic "blip" among those shopping for housewares at discount.



*Type of store in which consumers who bought housewares in the past year made their last purchase.

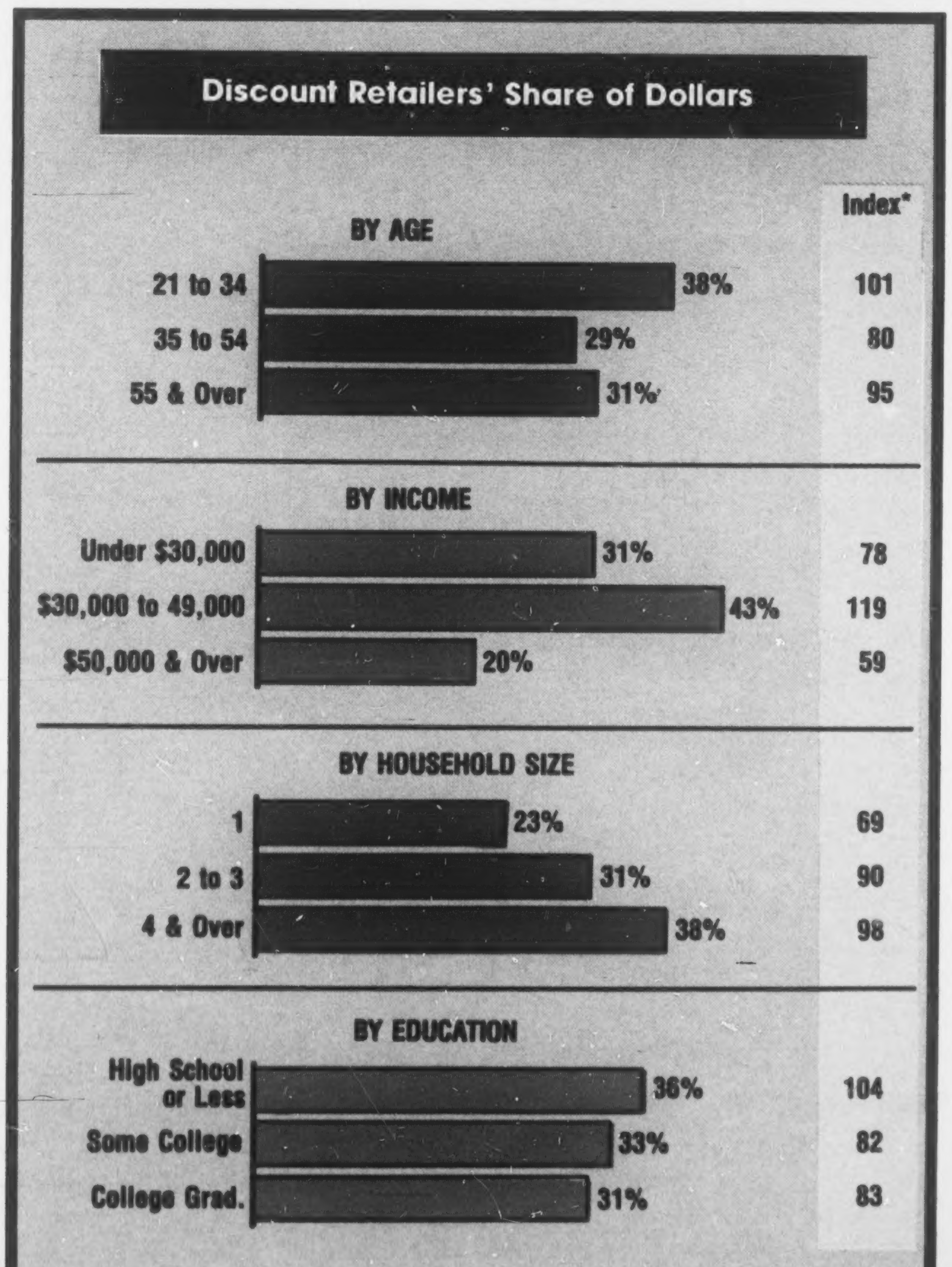
Source: Leo J. Shapiro & Assoc.

Consumers earning less than $30,000, and those with incomes in excess of $50,000 estimated they spent more of their housewares dollars at discounters than consumers in the middle of these two income groups ($30,000 to $49,000).

Singles spent 66% of their housewares dollars at stores that "sell at a discount," while other households spent less than half of housewares dollars in discount stores.

The demographic blip can be explained in part by the availability of discount formats selling housewares—including catalog showrooms, manufacturers outlets and warehouse clubs—which typically cater to a more affluent customer. As a group, these formats accounted for 11% of last housewares purchases.

Gourmet shops and other non-discount independent stores got nearly one-fourth of most recent purchases. All non-discount formats together garnered 32% of last housewares purchases, significantly less than the average for all the departments surveyed.



*Index represents cards & stationery share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

CARDS & STATIONERY

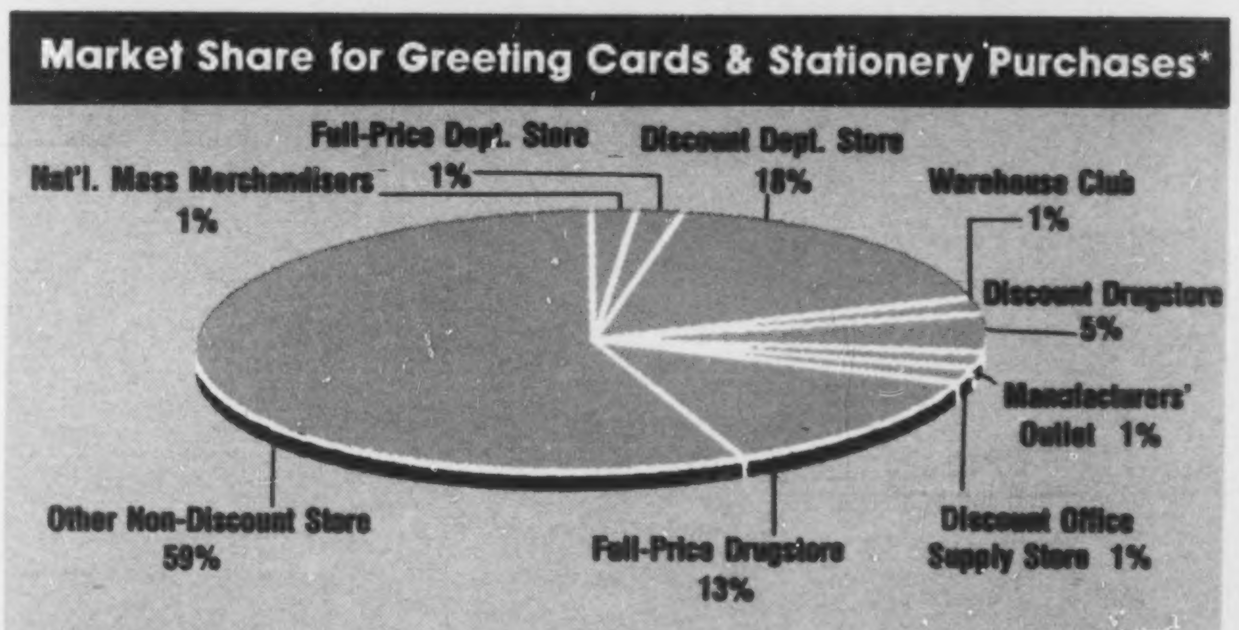
Consumers Turn to Discounters for Less Than A Third of Their Greeting Card Buys

Greeting card and stationery departments at discount stores attract a relatively low percentage of total dollars spent by consumers on these products.

Less than a third (32%) of all dollars spent on greeting cards and stationery is earmarked for a discount store, a figure lower than the amounts for all other departments tracked in the study except men's clothing (30%) and auto supplies (27%).

One-fourth (25%) of consumers who were surveyed who bought stationery or greeting cards in the past year made their last purchase at a discount retailer, with 18% mentioning discount department stores.

The discount chain where consumers said they shopped at most in the last year for greeting cards and stationery was Wal-Mart, with 7%. Kmart followed with 5% of mentions. Target was identified by 2% of discount department store shoppers who purchased greeting cards and stationery in the last year, and Ames and Meijers each received 1% of mentions.



*Type of store in which consumers who bought greeting cards and stationery in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Non-discount retailers, especially Hallmark, are the stores consumers choose to shop in most often for these products.

When asked where they last purchased greeting cards and stationery, 73% of survey respondents said "other non-discount stores" such as full-price drug stores, Hallmark and independent retailers. Hallmark received a consumer response of 27% of mentions, while independent stores—which were not identifed by name—received 24% of mentions.

Hallmark remains, by far, the store consumers think of first to satisfy their greeting card and stationery needs.

Full-price drug chains were mentioned by 13% of shoppers in this survey.

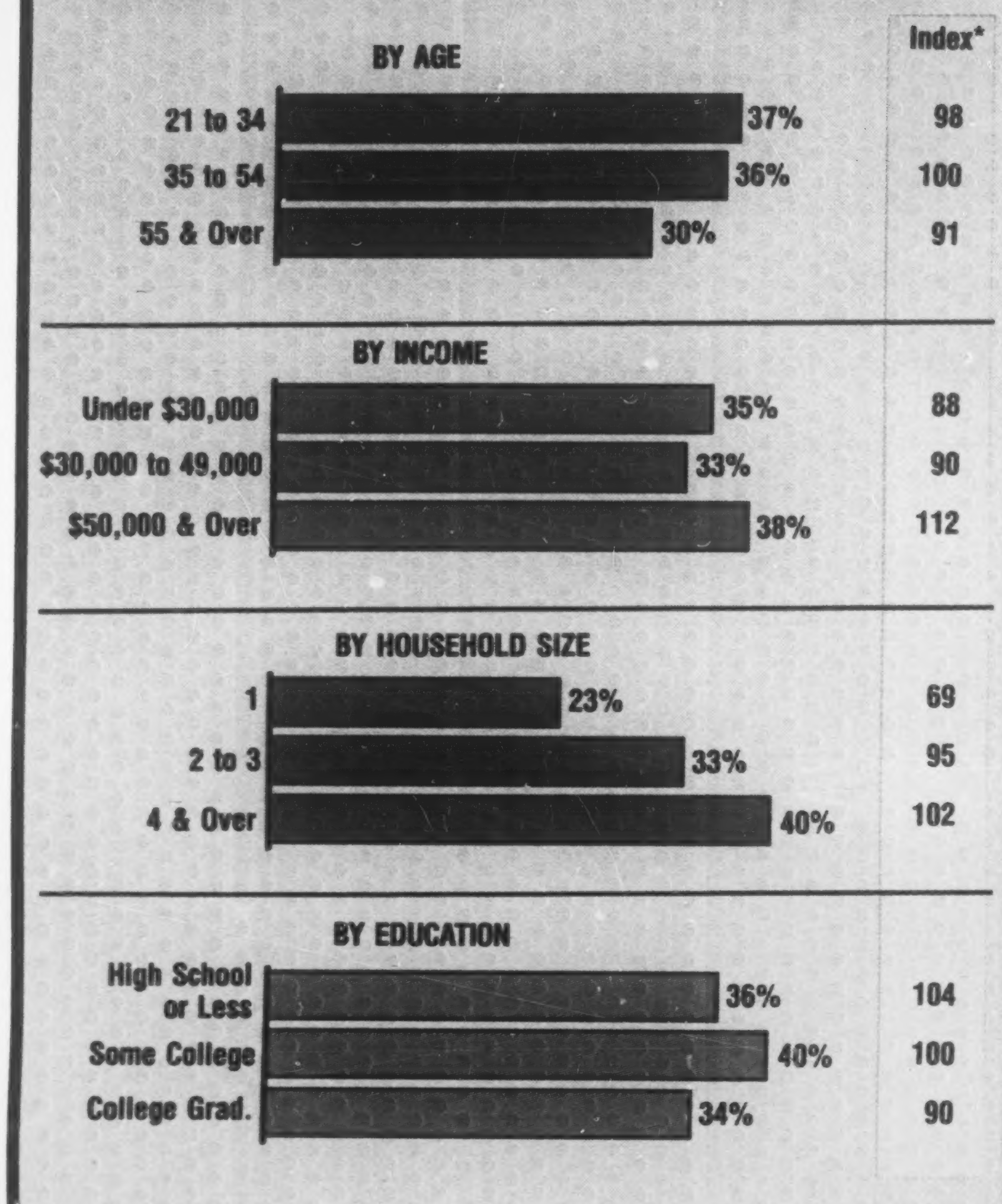
On a regional basis, consumers turned to discount department stores most often in the South (25%) and North Central states (25%), and least often in the Northeast (9%).

Wal-Mart was the strongest discounter in these regions.

HOME DECOR

More Than a Third of Home Improvement And Hardware Dollars Go to Discounters

Discount Retailers' Share of Dollars



Index represents home decor share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

For hardware, decorating and home improvement products, stores that consumers define as discounters are getting close to the all-department average share of consumer dollars spent.

Among discount chains consumers said they shopped, Home Depot goes to the head of the class. Two home center chains, Home Depot and Builders Square, a Kmart subsidiary, command a public image as hardware discounters, with 80% of those surveyed regarding them as a discounters. In comparison, 13% of consumers think of Sears as a discounter of hardware.

Of dollars they spend for hardware, consumers say 34% goes to stores they perceive to be discounters, against 36% for all merchandise.

Overall, 30% last bought a hardware item from a discount retailer. Regionally, the percentage ranged from 40% in the West to 19% in the Northeast.

Atlanta-based Home Depot came out the best on the question "Where did you make your last hardware purchase?" Of respondents, 8% said they went to Home Depot, with the percentage increasing to 15% in the West and 13% in the South. Builders Square got 4% of the last purchase responses, 10% in the North Central region alone.

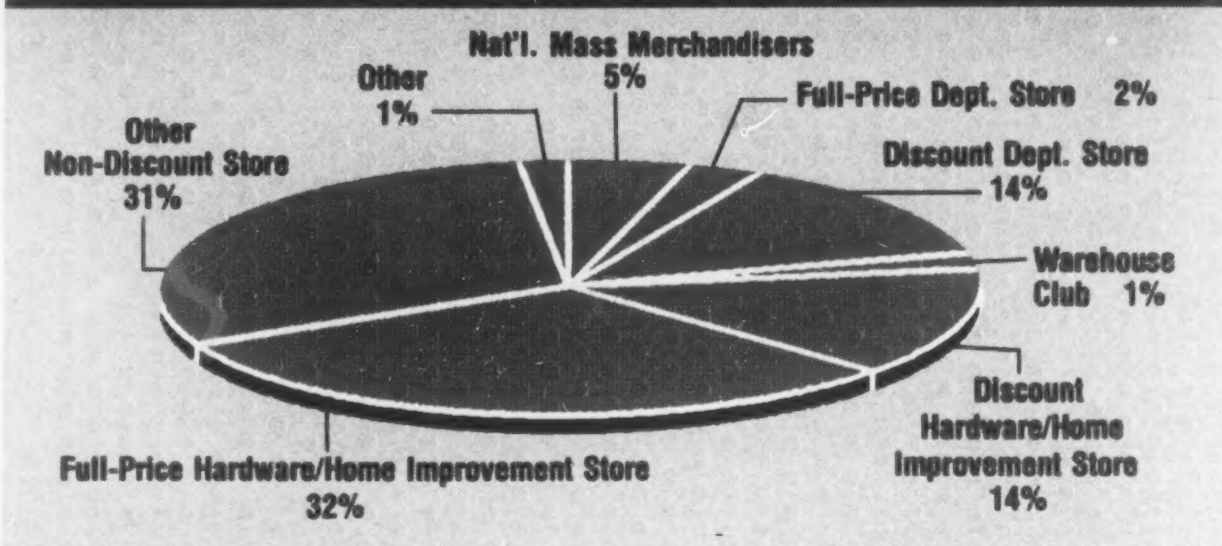
Wal-Mart got 5% of the overall last purchase responses and 9% of those from the South. Kmart each got 5% of the last purchase responses overall and 9% in the Northeast. Sears got 5% overall, 7% in the Northeast.

Target, Meijers and Ames each got 1% nationally.

The most likely hardware customer for a discount department store is a blue collar worker age 35-54, with a high school education, who supports a family of two or three on earnings of less than $30,000.

At a discount home center, however, the most likely customer also is 35 to 54, with two to three dependents, but with a college degree, and earning up to $50,000 a year in a managerial or professional job.

Market Share for Home Decor Purchases*



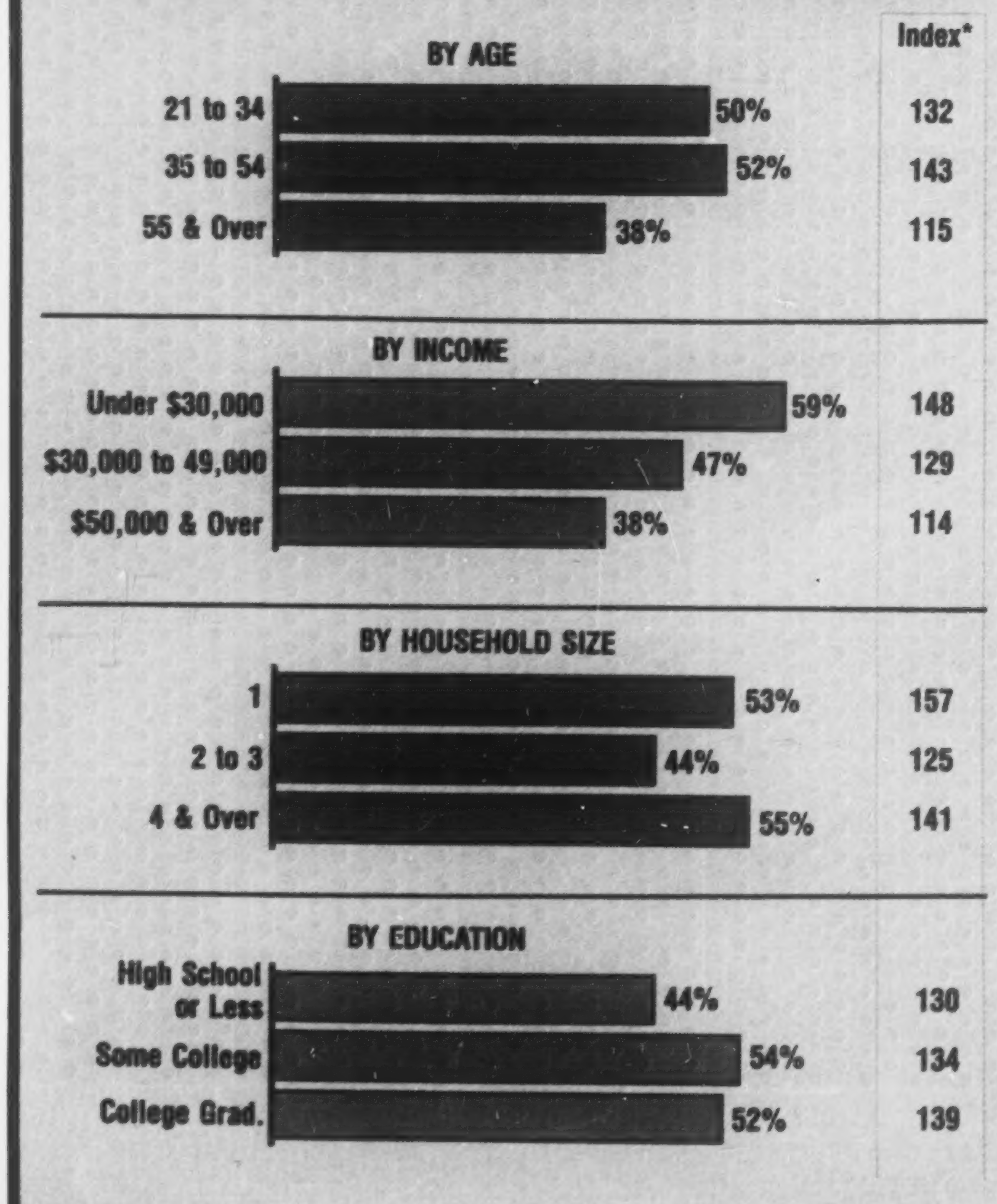
**Type of store in which consumers who bought home decor in the past year made their last purchase.*

Source: Leo J. Shapiro & Assoc.

BED & BATH

Young, Large Households Help Make Bed & Bath a Top Discount Category

Discount Retailers' Share of Dollars



Index represents bed & bath share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

Roughly one half of all bed & bath dollars are now spent at discount stores. Predictably, younger consumers with larger households are most likely to buy from a discounter, while consumers from older (and presumably wealthier, smaller households) are more likely to buy from a non-discount source.

Overall, bed & bath appears to be one of the strongest departments in the discount industry. About one-third of all dollars go to stores consumers define as discounters, compared to the 48% of bed & bath dollars spent at stores they see as discounters.

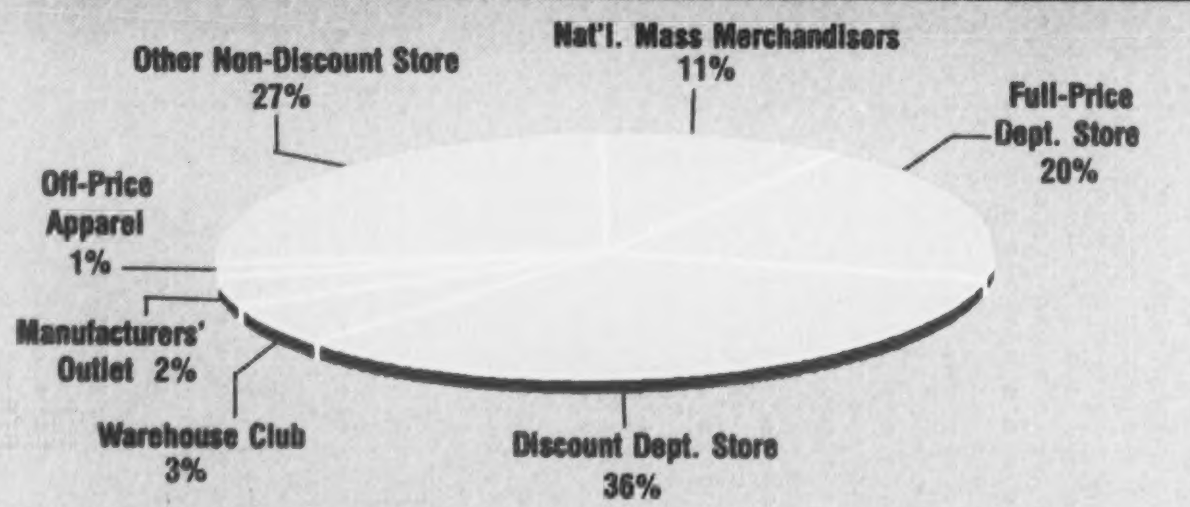
While Sears and JCPenney are generally thought to be the top bed & bath outlets industrywide, discount department stores were the channel of distribution in which the largest percentage of consumers last shopped for bed & bath products. Thirty-six percent of the respondents who bought bed & bath products in the past year made their last bed & bath purchase at a discount department store, with Wal-Mart, 16%, and Kmart, 9%, leading the way.

Department stores, including JCPenney, garnered 20% of consumers' last purchase, and national mass merchandisers, including Sears, Montgomery Ward and Mervyn's, captured only 11%.

Wholesale clubs are just beginning to make an impact on the bed & bath market, at least from a consumer perspective. Nationwide, only 3% of consumers made their last bed & bath purchase at a club, but in the West, clubs' captured 9%. Since the concept has spread west to east over the past several years, the results reflect the growing acceptance of the warehouse club among consumers.

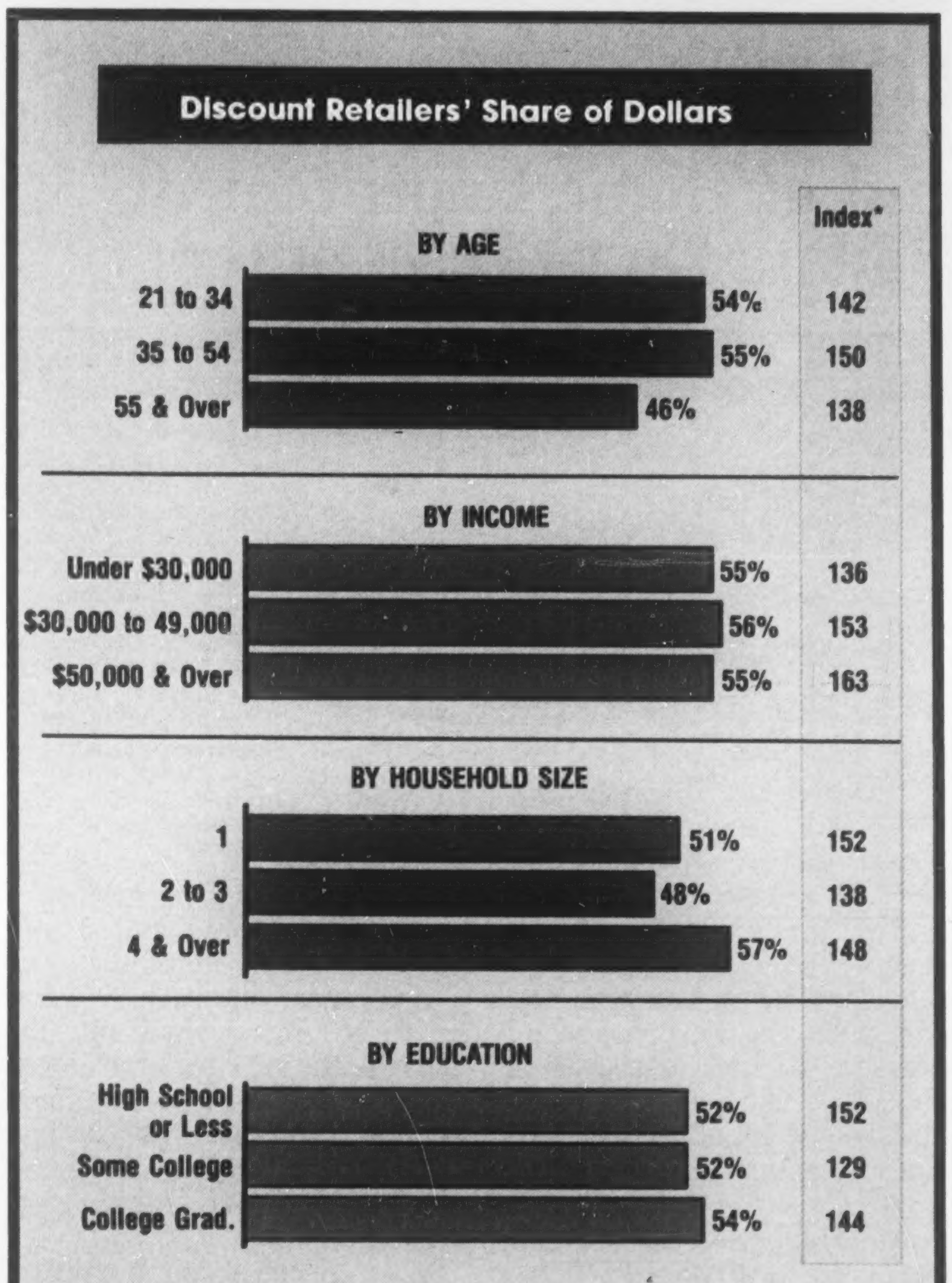
In demographic terms, discounters were skewed heavily toward younger and less affluent shoppers, which is consistent with other surveys. For instance, only 14% of Wal-Mart's customer base was over 55 years of age, and only 8% of Kmart shoppers made more than $50,000 in household income.

Market Share for Bed & Bath Purchases*



**Type of store in which consumers who bought bed & bath products in the past year made their last purchase.*

Source: Leo J. Shapiro & Assoc.

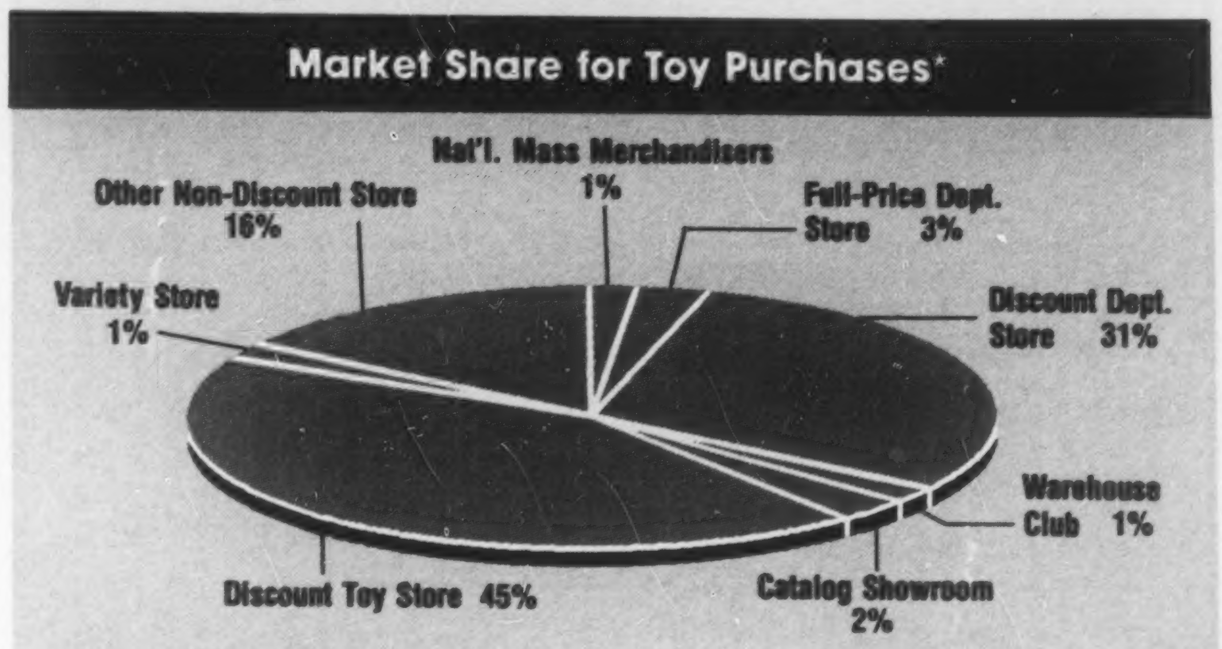


*Index represents toys share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

TOYS

Discounters Draw the Lion's Share Of Consumers' Toy Expenditures



*Type of store in which consumers who bought toys in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

With thousands of outlets available nationwide, discount stores received the greatest percentage of consumer dollars spent on toys of all retail outlets.

Consumers said they spent more than half (53%) of the toy dollars last year at discount stores. None of the other 14 merchandise categories examined in this study attributed a higher percentage of available dollars to discount stores.

Moreover, 78% of toy shoppers who said they purchased a toy in the last year made their last purchase at a discount retailer. Of that, 31% made that purchase at a discount department store like Wal-Mart and Kmart.

Toys "R" Us, the leading independent toy chain, was mentioned by 38% of consumers as the place they last shopped for a toy. But consumers remain confused as to whether Toys "R" Us is a discount store or a full-price retailer.

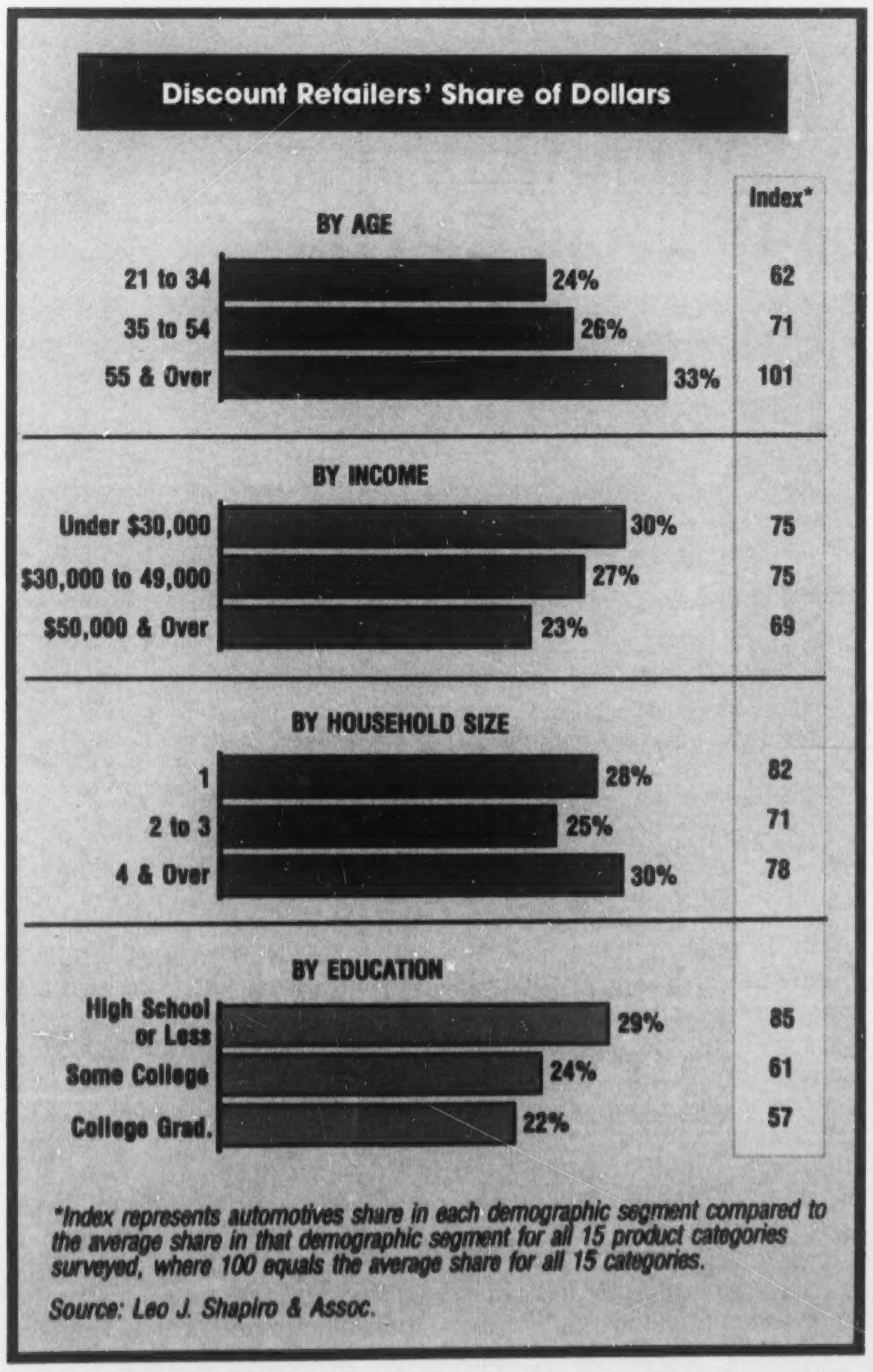
According to survey results, only about 40% of surveyed consumers identified Toys "R" Us as a discounter. Apparently, TRU's marketing emphasizes its wide assortment more than its low prices.

However, regardless of what label consumers place on TRU, the toy chain is a leader among national retailers.

Of all people who shopped for any of 15 product categories surveyed in the last year, 42% made their last visit to a Toys "R" Us, tied with Target—a greater percentage of people than last shopped at seven other chains on a list of 12. TRU followed Kmart (77%), Sears (67%), and Wal-Mart (51%).

Among discount department store chains, Wal-Mart was identified most by consumers as the place they last shopped for toys (14%), followed by Kmart (7%), Target (3%) and ShopKo, Ames, Hills, and Meijers (1%) each.

On a regional basis, discount retailers did best as the place consumers last shopped for toys in the North Central region and the South (82%). Predictably, Wal-Mart did best in the South, (27%), and Toys "R" Us did well in the South and West (39%).

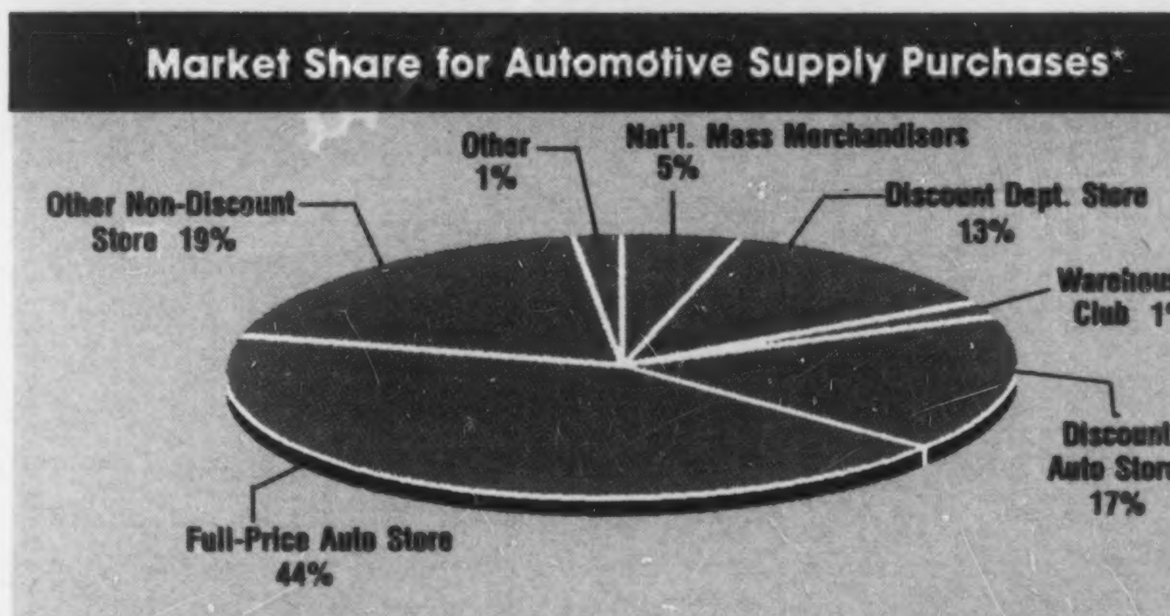


*Index represents automotives share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

AUTOMOTIVE SUPPLIES

Automotives the Weakest Department for Discount Stores, Except in the South



*Type of store in which consumers who bought automotive supplies in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Although auto parts and accessories made the weakest showing on the discount shopping survey of any of the 15 departments, auto parts discounting thrives in the South.

Memphis, Tenn.-based AutoZone, which caters to low-income motorists who fix their own cars and pickups, is the star among chains.

When buying auto supplies, consumers spend 27% of their dollars at stores they perceive to be discounters, the least among 15 departments.

In terms of where consumers bought their last auto supplies, the Northeast is weakest, with 16%, compared to 31% for the country.

In the north central region, where full-price auto stores, such as Nationwise and AutoWorks dominate the automotives aftermarket, 28% of respondents bought their last automotives from a discounter.

In the South, 45% of shoppers said they bought their last auto supplies at a store they see as a discounter.

On the last purchase question, the 31% for auto compares with 37% average for all departments. The breakdown by channel of distribution is: discount auto chains (17%), discount department stores (13%), and warehouse clubs (1%), and among the non-discount chains, national mass merchandisers, such as Sears, Ward (5%) and other non-discount stores, including full-price auto and service stations (63%).

A person aged 21 to 34 with a high school education, supporting a family of two or three on annual earnings of less than $30,000 from a blue-collar job, is most apt to buy auto supplies at a discounter.

The least likely customer is a single, age 55 or older, who graduated from college and makes $50,000 or more in a professional or white-collar job.

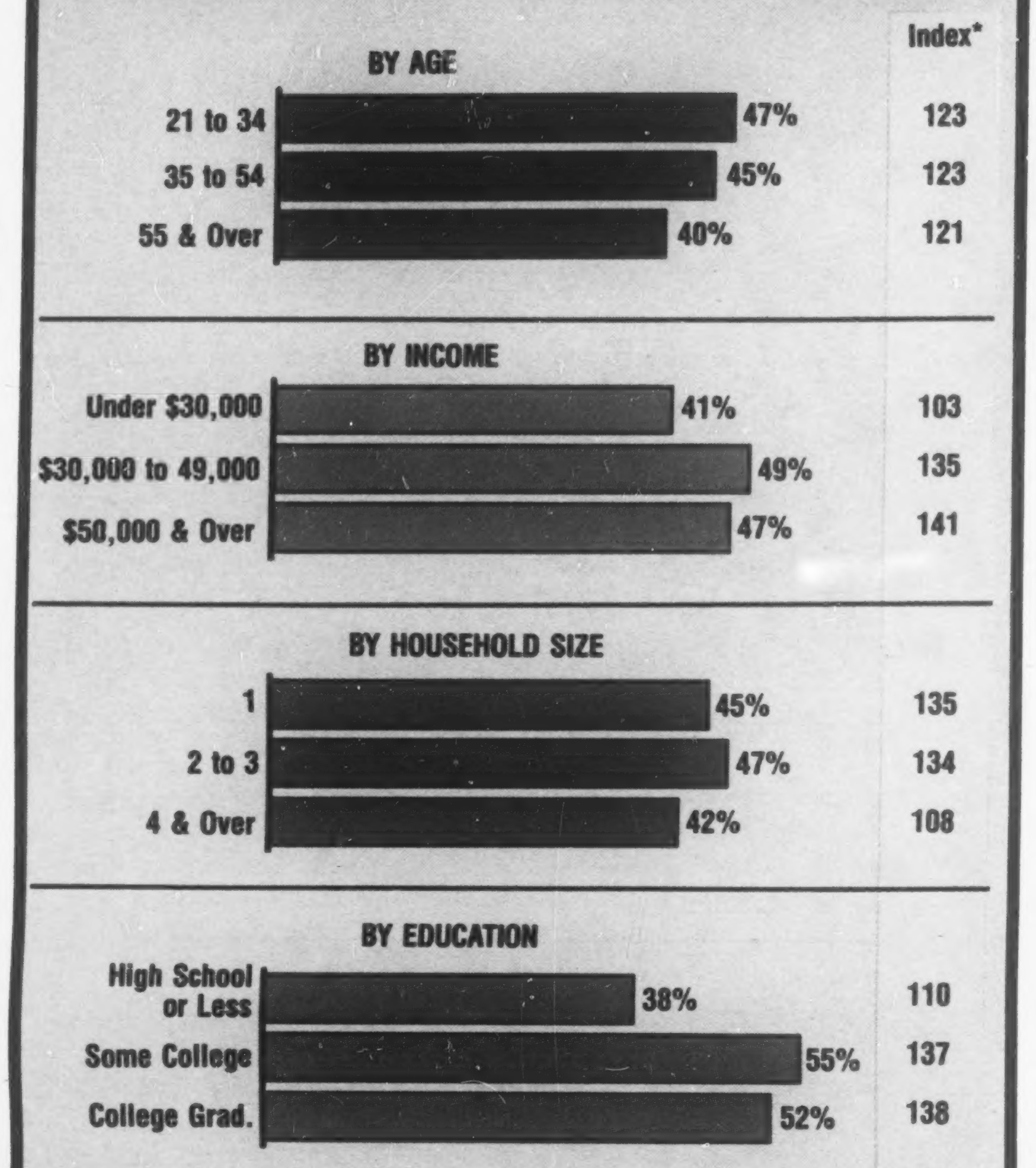
Nearly one in 12 (8%) of consumers made their last automotive buy at AutoZone. Wal-Mart, Kmart and Sears each snared the last automotives purchase of 5% of consumers.

Only 4% regard Sears as an automotives discounter, and 5% said they bought their last auto supplies at Sears.

ELECTRONICS

Half of Consumers' Electronics Dollars Go to Discounters, as Warehouses' Share Grows

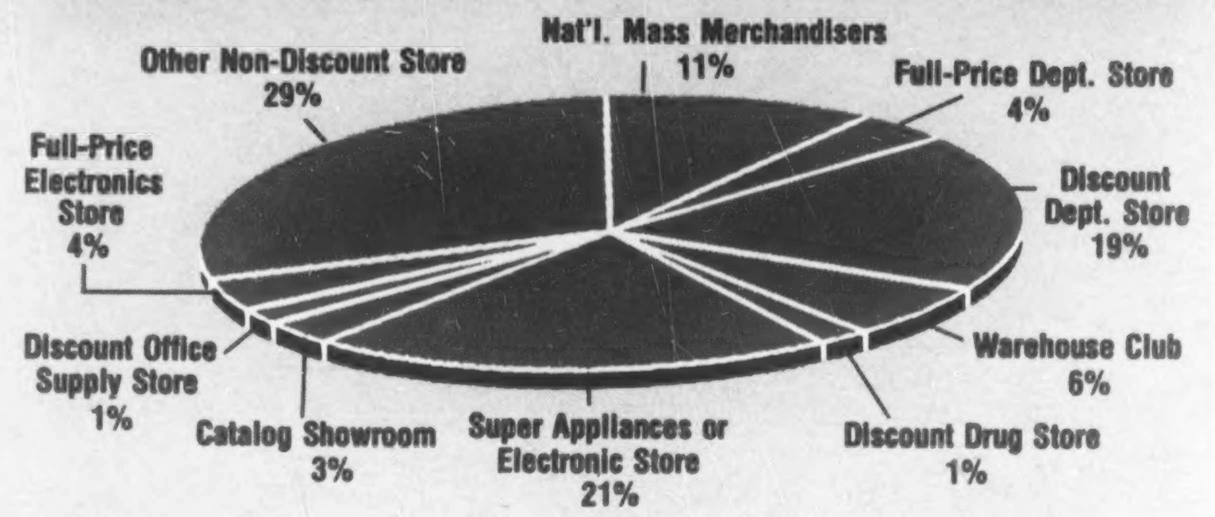
Discount Retailers' Share of Dollars



*Index represents electronics share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

Market Share for Electronics Purchases*



*Type of store in which consumers who bought electronics in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Warehouse clubs are the fastest growing segment in consumer electronics retailing, and their share of the market will probably continue to rise. On average, for all 15 product categories surveyed for *DSN*, clubs attracted about 3% of all shopping visits. However, in home electronics, 6% of consumers who purchased a CE product in the last year made their last purchase at a warehouse club.

In dollars, consumers said nearly half of their expenditures for electronics went to outlets they considered discounters. However, while nearly all shoppers recognized Kmart, Wal-Mart and wholesale clubs as discounters, only about two-thirds identified Circuit City as a discount outlet, so the amount of dollars spent at discounters is likely higher than consumers reported.

Overall, Wal-Mart, Sears, and Circuit City were the top three national electronics retailers, with Kmart, Ward and Radio Shack tied for fourth, followed by regional superpower Best Buy.

Shoppers in the South and North Central regions were most likely to shop a discounter, with shoppers in the Northeast less likely.

Warehouse clubs were formidable competitors in the West, with 13% of the market, led by Costco's 4%. Sears and Ward, along with Wal-Mart, were strong in the South.

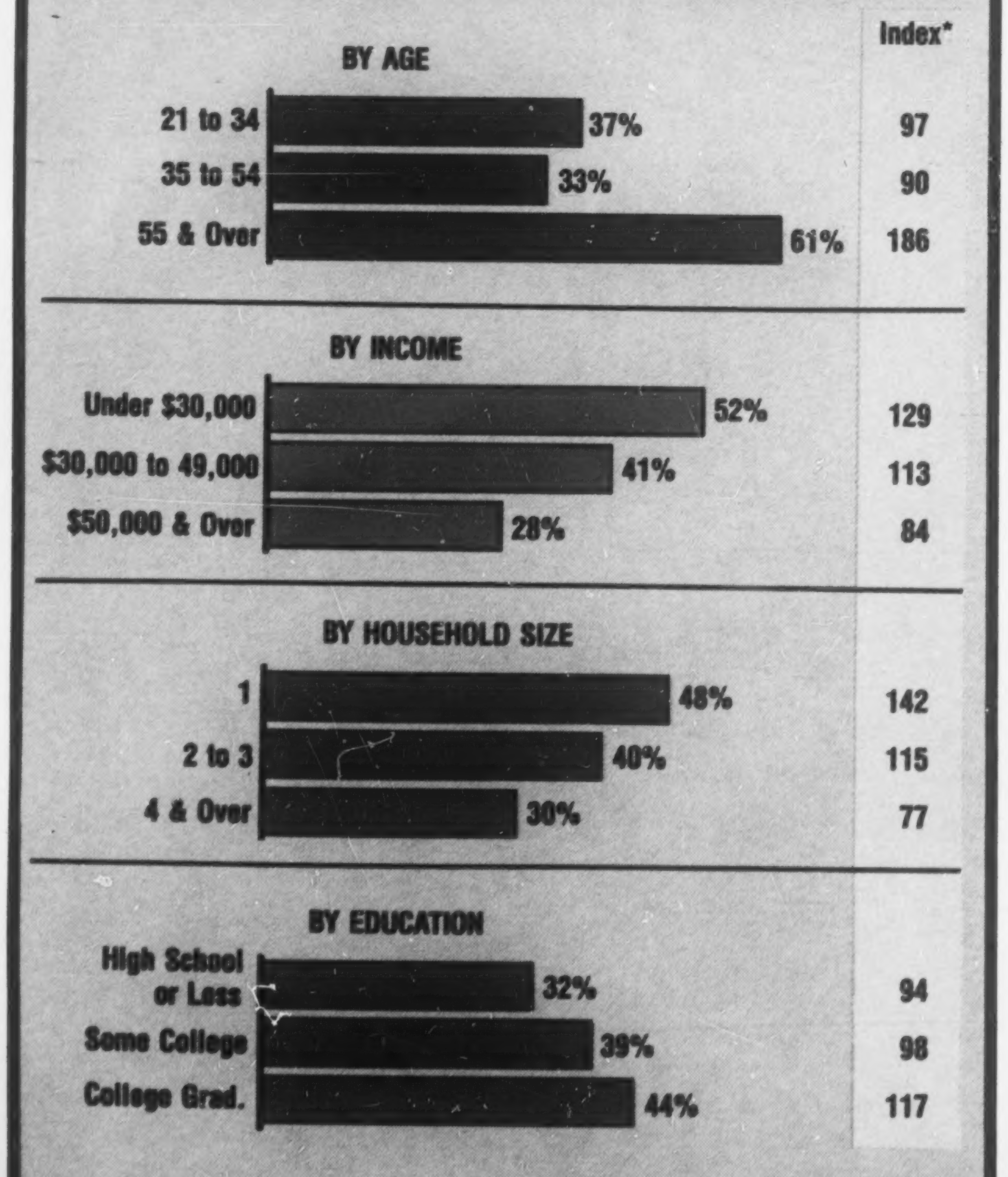
Demographically, warehouse clubs drew a disproportionate share of upscale shoppers, with nearly eight of ten warehouse shoppers reporting an income of over $30,000. Shoppers at clubs tended to be well-educated, but were evenly split between management/professional and blue-collar workers.

Warehouse clubs also drew a large number of middle-aged people to their electronics departments. Superstores, on the other hand, tended to draw young, affluent singles, while traditional discounters drew younger, less affluent, and less-educated consumers. Sears performed best among blue-collar, middle-aged, nonaffluent shoppers.

SPORTING GOODS

Wal-Mart, Kmart Lead in Sports Purchases, With Full-Price Stores Behind Them

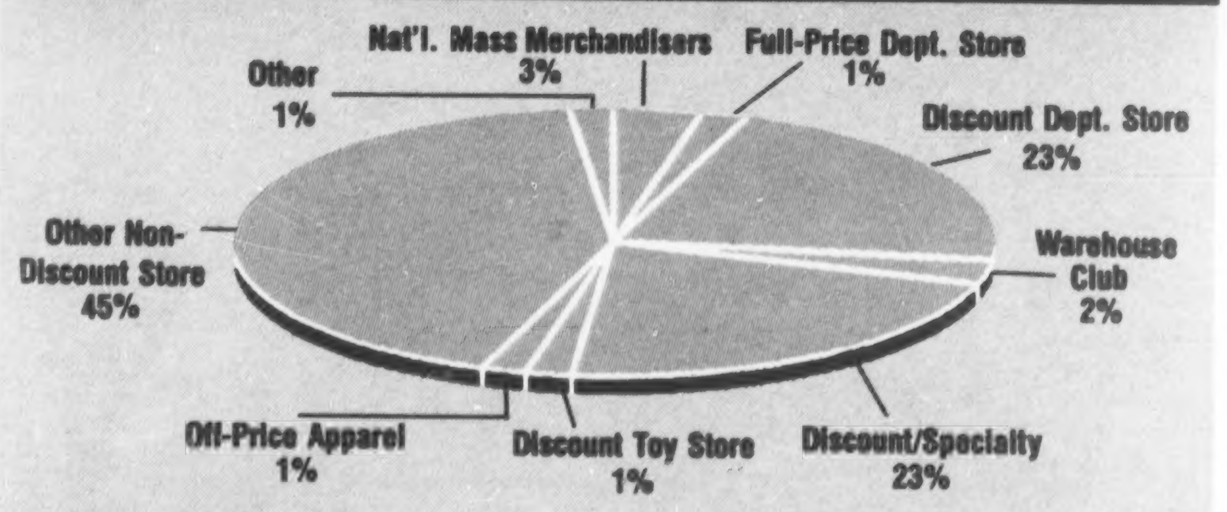
Discount Retailers' Share of Dollars



*Index represents sporting goods share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.

Market Share for Sporting Goods Purchases*



*Type of store in which consumers who bought sporting goods in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

Discount retailers, as defined by consumers, accounted for 38% of all dollars spent for sporting goods in the United States last year, as 46% of the nation's sporting goods shoppers said they made their last purchase of such merchandise in either a discount department store or a specialty sporting goods chain.

Wal-Mart and Kmart were the leading outlets for sporting goods nationwide, followed by Herman's. Those three, plus Sports Authority and Big 5 Sporting Goods, accounted for nearly a quarter of all sporting goods shopping visits.

However, it appears that consumers are buying larger ticket items at outlets they view as discounters, particularly in the South and North Central regions, where roughly a half of all sporting goods dollars went to discounters, while only 29% of store visits overall involved discounters.

Nationally, only Sears and Target joined the top three in scoring over 1% of store visits. According to consumers, the sporting goods market is fragmented, with electronics stores, toy stores, warehouse clubs, home improvement chains, catalog showrooms, manufacturer outlets, department stores, mass merchandisers and local pro shops fighting for sporting goods dollars.

Older consumers were more likely to shop discounters. Of those 55 and over, 61% of sporting goods dollars were spent at discounters, compared to about one in three storewide. A disproportionate number of single-person households and those earning less than $30,000 also shopped discounters for sporting goods.

And in a deviation from typical discount store demographics, college graduates were more likely to shop discounters for sporting goods, with about 44% of dollars spent by that group going to discounters, compared to just over 30% of those with a high school education or less.

Wal-Mart is now the nation's leading outlet for sporting goods, with 10% of "last purchases." Kmart is right behind, with 7%.

LAWN & GARDEN

Discounters in South and Northeast Snare Above Average Share of Lawn & Garden Dollars

Discounters snared 35% of total spending on lawn & garden products, about par for discount shopping as a whole, 36%.

Southern discounters, however, get 40% of L&G dollars, while the Northeast lands 39%.

Among discount outlets, Kmart and Wal-Mart run neck and neck, with 11% of those surveyed saying they had bought their last L&G purchase at Kmart and 10% at Wal-Mart. Regionally, the last purchase percentage rises for Kmart to 17% in the Northeast, and to 18% for Wal-Mart in the South alone.

Target, Meijer and Sam's Club each got 1% of the last purchase responses nationally.

In the West, 4% of consumers made their last lawn and garden purchase at a Costco, (1% nationally) while 10% of westerners (4% nationally) made it at a Home Depot.

For the country as a whole, however, the most common place for the last L&G purchase was a full-price nursery, 18%.

Of those surveyed, 12% regard Sears as a L&G discounter, and 5% said they made their last L&G purchase at Sears.

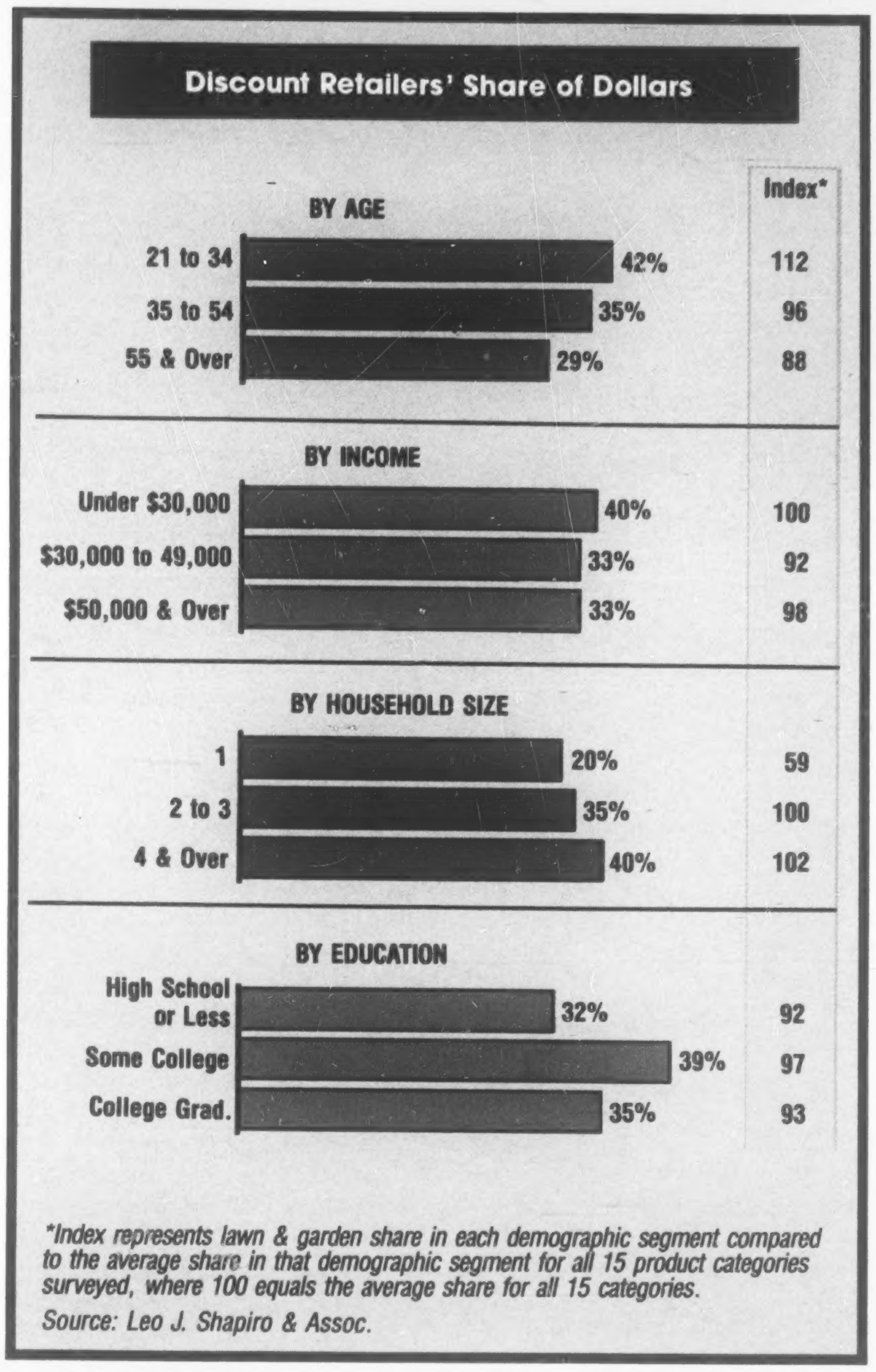
Demographically, those who spent the highest percentage of their L&G dollars at discounters were: white-collar workers, 44%; those aged 21 to 34, 42%; those with four or more family members, 40%; those making less than $30,000; 40%; and managerial and professional employees, 39%.

In comparison, blue-collar workers directed 32% of their L&G dollars and 39% of their total spending to discounters, for a below par spending index rating of 83.

The least loyal discount customers are single people, who spent only 20% of their L&G dollars at discounters, and those age 55 or older, 29%.

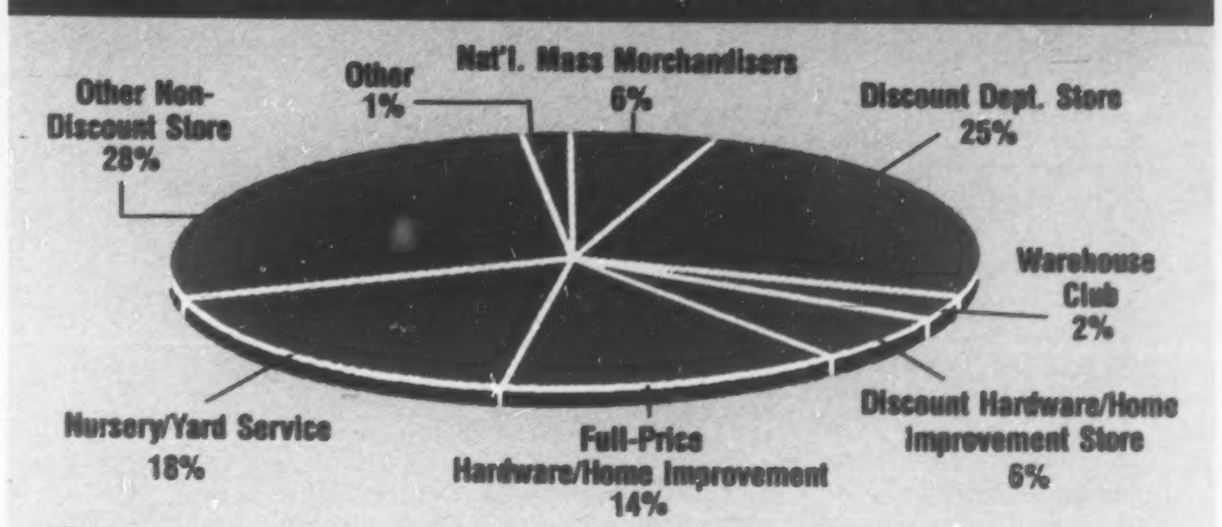
Among those who last shopped for L&G supplies at a discount store, the most likely customer is someone age 35 to 54, who makes $30,000 to $50,000 in a blue-collar job, and has two or three dependents.

Those who last shopped at a discount home center for L&G tend to be college graduates who earn more than $50,000.


Discount Retailers' Share of Dollars

*Index represents lawn & garden share in each demographic segment compared to the average share in that demographic segment for all 15 product categories surveyed, where 100 equals the average share for all 15 categories.

Source: Leo J. Shapiro & Assoc.


Market Share for Lawn & Garden Purchases*

*Type of store in which consumers who bought lawn & garden products in the past year made their last purchase.

Source: Leo J. Shapiro & Assoc.

DISCOUNT STORE NEWS

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Vol. 31, No. 6 March 16, 1992

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THE INTERNATIONAL NEWSPAPER OF DISCOUNT RETAILING

VOL. 31, NO. 7 Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. $5 per copy April 6, 1992

SECOND CLASS

Seasonal area at ShopKo's new Oregon store: Upscale decor with a warehouse-style ceiling. (DSN photo)

ShopKo Heats Up Northwest

Salem Retailers Also Brace for Wal-Mart, Pace, Costco

SALEM, Ore. — ShopKo pumped up the discount competitive pressure in Oregon's capital last month by opening the first Vision 2000 prototype store built from scratch.

Including two units in Eugene, and one in Bend, in the western part of the state, ShopKo now operates four of its 110 units in Oregon.

The new, 115,000-sq.-ft. ShopKo beat by a few months the opening this summer of Wal-Mart's first store in the capital. As ShopKo held a soft opening March 8, workmen were installing flooring in a new Wal-Mart about three miles to the north. Wal-Mart invaded Oregon March 3, with its first two stores in Lebanon and Klamath Falls (see accompanying story).

ShopKo also faces Salem's first warehouse clubs: Costco which opened last month, and the first Pace Club, which opens April 10.

Indicating that ShopKo stands willing to compete in the same markets with Wal-Mart, the chain has applied to the Urban Renewal Authority in Arvada, a Denver suburb, for a permit to build a store in a former unit of the now-defunct Buyer's Club. Denver, of course, is a stronghold of Target, as well as Wal-Mart.

Besides ShopKo, consumers in Salem, population 106,000, have their choice of: three Fred Meyer units, two Kmarts; two Bi-Marts; two G.I. Joe's, a hard lines discounter specializing in automotives and sporting goods, and one each of Target, Sears, Montgomery Ward, Biz-Mart, Best Products, Costco and soon Pace.

"They're under seige and don't know it yet," said Cynthia McBurney, retail specialist for the Oregon Downtown Development Association.

(Continued on page 42)

Wal-Mart's Own Oregon Trail

By Richard Halverson

LEBANON, Ore. — Wal-Mart took the last step in becoming a national chain, launching its long-awaited invasion of the Northwest by opening its first two stores in Oregon.

With the addition of Oregon, Wal-Mart now operates discount stores in 40 states representing all major U.S. census regions.

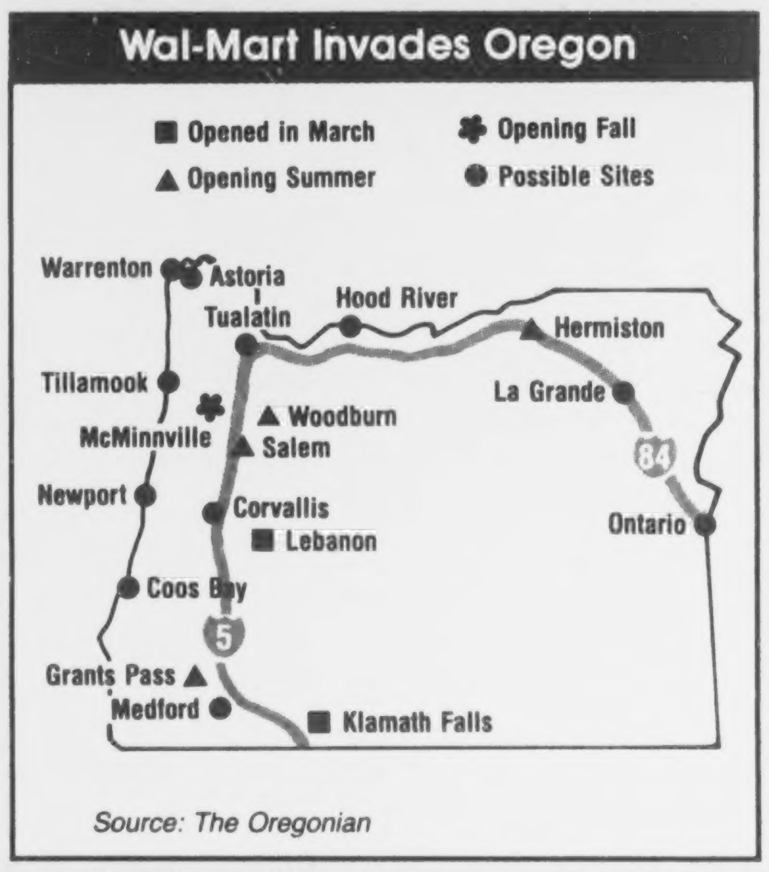
Wal-Mart also operates Sam's Club in 43 states and has announced it will open at least one club in Idaho at Idaho Falls. So far, though, it has announced no plans to build clubs in Oregon, although state officials pick up reports that Sam's is coming to do battle with locally based Costco of Kirkland, Wash.

Wal-Mart will open three more Oregon units this summer and two others in the fall.

The Oregon Downtown Development Association in Portland said Wal-Mart is "actively seeking real estate" for 11 more stores for a second round of openings next

(Continued on page 41)

Wal-Mart Invades Oregon



Source: The Oregonian

For its thrust into Oregon, *Wal-Mart chose rural enclaves along major interstate highways.*

Earth Day Comes Down to Earth

By Jill Lettich
Nationwide DSN Report

Where have all the flowers gone? Or the balloons? Or the big ticket sweepstakes?

Retailers are still looking for the right environmentally friendly formula for promoting Earth Day, April 22, but the big festivities that took place on the 20th anniversary of the event in 1990 seem to have disappeared.

During 1992, there are likely to be quieter Earth Day celebrations with fewer boisterous promotions. Retailers are relying more on product manufacturers to take the lead. And the retail corporate office is letting individual stores celebrate at their own pace.

The day will be characterized by some new "green" product introductions. In addition, coupons and other giveaway promotions for "green" products are being instituted by some manufacturers and retailers.

Rather than a sign of waning interest in the environment, these smaller efforts represent a shift of focus from single event marketing to more year-long efforts. Many manufacturers have directed their efforts inwards through educational efforts or internal recycling programs.

"Every day is Earth Day," said Jamie McNaughton, vice president, McNaughton Inc. "There is less hoopla about the

(Continued on page 39)

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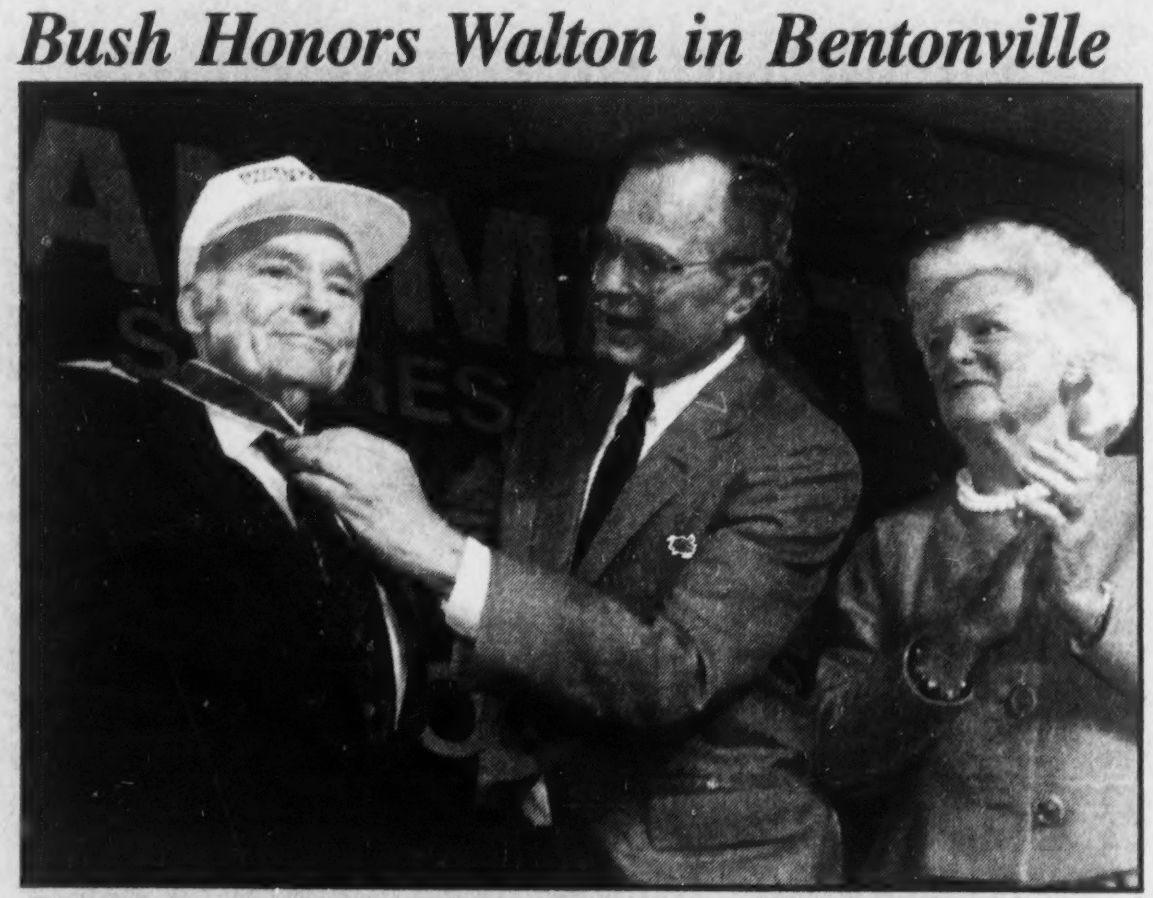
Bush Honors Walton in Bentonville



President Bush *recently awarded Sam Walton, founder and chairman of Wal-Mart, the Medal of Freedom as first lady Barbara Bush looked on during ceremonies at the retailer's headquarters in Bentonville, Ark. The Medal of Freedom is the nation's highest civilian honor.* (AP photo)

Antonini Praises QR Benefits at '92 Show

By Arthur Markowitz

CHICAGO — Kmart's practical benefits from using Quick Response, along with manufacturers' latest technology offerings, highlighted QuickResponse '92, the annual conference and expo which is co-sponsored by AIM USA and VICS.

Symbol Technology's hand-mounted RF bar code scanner can talk with a host computer.

Joseph Antonini, Kmart chairman and ceo, in his keynote address, cited some benefits that are the direct result of the retailer's use of QR technology.

Kmart began QR in 1978 when it launched an EDI program. It installed scanning chainwide in 1990 and subsequently initiated a QR relationship with vendors. These include:

- Development of a purchasing database that allows merchants to "quickly differentiate between hot-sellers and duds," resulting in better merchandising and inventory flow.
- An automated inventory replenishment system in which the chain's network of distribution centers supply 75% to 80% of store merchandise, with 90% as its goal. The DCs supply 100% of the apparel and 50% of the hard lines, and the target is 90% for all of Kmart's merchandise.
- Faster turnaround for orders. Two years ago, orders were filled in five to seven days. Now, all Kmarts receive daily deliveries and most orders are filled in 48 hours, enabling stores to maintain a 99%-plus in-stock position.
- Forming "cross-functional business teams that interact daily" and are "empowered to effect change." Their mission, he said, is "eliminating all non-value adding costs, from the point of suppliers' purchases of raw materials to the consumers' store level purchase."

Kmart's 'Partners in Merchandise Flow' program, Antonini said, is a "bold approach in that we are the only one of a very few mass merchandisers who are empowering our vendor base—allowing *them* to place orders and replenish inventory on the data available through QR technologies.

"Kmart top executives, often including myself, meet with our supplier partners to review our results and establish new strategies," said Antonini. "Our success is built on trust and confidence in each others' ability to achieve mutually beneficial goals—for sales, margins, market share, reduced costs and net profit."

The bottom line is "we're communicating at all levels," he declared.

Looking ahead, he said that Kmart plans a "full system integration, using existing resources where possible" to de-

(Continued on page 42)

ShopKo Floats $200M Debt To Repay Former Parent

GREEN BAY, Wis. — By floating $200 million in long-term notes, ShopKo took a second major step last month to sever financial ties to is previous parent, Super Valu.

Under terms of the offering, filed with the SEC last month, ShopKo will use the $197.2 million net proceeds of the 10-year notes to repay revolving credit loans from Super Valu. Issued in two series of $100 million each, the notes carry interest rates of 8.5% and 9.25%.

Super Valu spun off a 48% minority interest in ShopKo last November, and ShopKo had to use the proceeds from the IPO of its stock to remit $281 million in retained earnings to its parent.

ShopKo intends to fund store expansion with "internally generated cash flow supplemented by borrowings," from banks, rather than from Super Valu, states the prospectus.

In its first rating of a ShopKo debt, Moody assigned an investment grade rating of Baa2.

The rating is "based on ShopKo's position as a regional discount store operator, its relatively low leverage given its 80%-owned store base and its ability to successfully operate large discount stores with good margins, earnings and cash flow," Moody's said.

Stein Mart Eyes Public Offering

JACKSONVILLE, Fla. — Stein Mart has filed with the SEC to sell a 26.7% stake in the discount soft lines chain to the public and would use the proceeds to pay out all of its retained earnings to its chairman and his wife and pay off all long-term debt.

Under terms of the initial public offering (IPO), chairman and chief executive Jay Stein would make a profit of about $11.25 million from the sale of 750,000 of his shares.

Stein and his wife, Cynthia, own 100% of the shares, indicating they are in line to receive all of the retained earnings that would be paid to existing stockholders, for total cash in hand of $36.75 million, if the IPO goes off as planned. Stein and his wife would retain a 73.3% stake in the company following the IPO.

The company itself, which operates 45 stores, would sell 3.25 million shares, for a total IPO of 4 million out of 15 million shares outstanding.

At an expected price of $15 per share, the company would realize about $45 million, net after underwriting commissions. After paying out the $30.5 million in retained earnings to Stein, the company would be left with $1 million in equity, the IPO registration statement discloses.

Stein Mart would use the balance of $14.5 million to pay off debt, including all of the $11.9 million in long term debt, the document shows.

None of the proceeds would go toward Stein Mart's expansion program, which consists of six to eight more stores in 1992 and seven to 10 more a year "for the next several years," the document indicates. Each new store requires outlays of $450,000 to $650,000, the filing with the Securities and Exchange Commission states.

Despite the recession, Stein Mart enjoyed a 15.8% gain in sales in 1991 to $225.4 million from $194.7 million the previous year. Operating profit rose to $15 million from $12.1 million in 1990. Same store sales rose 4.7%.

Other data from the SEC registration further illustrates a good year: operating profit margin improved to 6.7% of sales from 6.2% in 1990; and its S&GA expense ratio dipped to 21.4% from 22.6%.

Stein Mart prides itself as an upscale chain that "caters to fashion-conscious value-oriented customers who would typically shop at department stores and fine specialty shops." Its offerings include fashion labels, such as Ralph Lauren at 40% off list, and sterling silver giftware.

Stein Mart stores average 38,000-sq.-ft, the filing states. Sales per square foot averaged $186 last year.

Ladies apparel accounted for 31% of sales last year, while men's apparel produced 24%; gifts and linens, 16%; accessories, 11%; shoes, a leased department, 10%; children's apparel, 6%; and other, 2%.

Inventory turns in 1991 were 4.7, compared to 4.2 in 1987.

Stein Mart operates in 15 southern, midwestern and Rocky Mountain states, including Colorado, which it runs a store in Denver. For new markets through 1993, it has targeted: Dallas; Shreveport, La.; Atlanta; Cincinnati, Ohio, and Virginia Beach, Va.

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If your issue of DSN does not have a copy of this regional insert, you many obtain one by calling customer service at (813) 664-6707.

Discount Store News
30 Years OF LEADERSHIP

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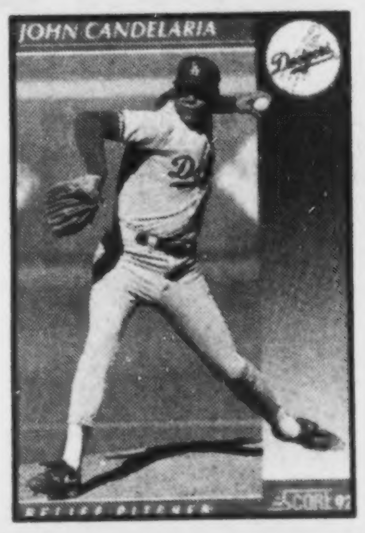

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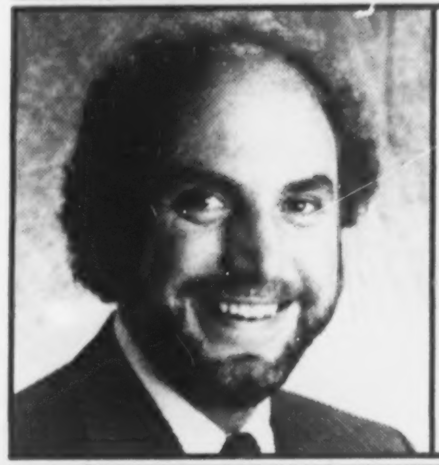
EDITORIAL

Getting a Very Different Perspective

We had been talking about political and economic issues (what else?) when the driver, who spoke more English than most cabbies in New York, pulled into Price Club's overcrowded parking lot in Ciudad Satelite about 15 miles from Mexico City.

"This is very busy store," said the driver, trying his best to speak proper English. "Señor, remember I am parked by the letter 'E,' " as he pointed to the standard blue Price Club sign.



TONY LISANTI
Editor

There was actually a line to get in to this new shopping concept for Mexicans which had been open just about a month (See Marketwatch, page 4). There are several differences between Price Club and Club Aurrera, which albeit may be minor, but significant to success.

- Parking—Price Club has three times the parking spaces.
- Size—Price Club, with 100,000 sq. ft., is almost twice the size of Club Aurrera and more a replica of its U.S. clubs.
- Merchandise Mix—Price Club has about one-third more skus and more U.S. products.
- Name recognition—Many Mexican shoppers are familiar with the Price Club name from its U.S. clubs, but don't immediately connect Wal-Mart or Sam's to Club Aurrera.

"Price Club is for the rich," proclaimed the taxi driver upon my return to the car. "The average person cannot afford even a membership. Look at the guy over there and most of these people here and all over Mexico," he said as the car hugged a sharp corner on two wheels. "He makes maybe 400,000 pesos a week. "How can he afford to shop Price Club?

"Price Club is for the rich. I was reading the directions, Señor, to get a card—doctors, lawyers . . .; you must be a big boss to shop there," he said with some resentment in his voice. "It is not the rich in Mexico, Señor, that need to get good prices, good products. It is the poor."

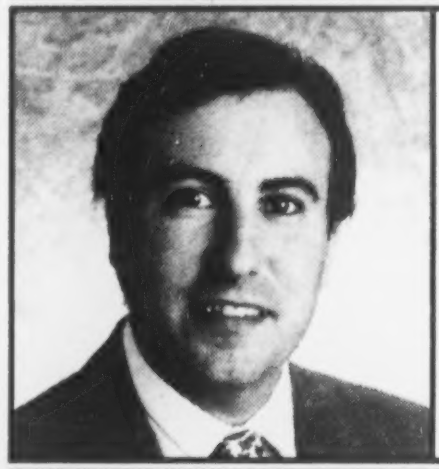
The rest of the ride was rather quiet. Even when I tried to explain the concept as it is perceived in the United States, it didn't seem to matter. We had discussed a lot of issues. But again he said, "My friend, we must help the poor. Señor, we must give them a chance to make better lifestyle."

BUYERS & SELLERS

Wal-Mart Offers Private Label With Panache

Wal-Mart's launch of Sam's American Choice products and the less publicized expansion of its Equate line of health & beauty care reveals a merchandising revolution underway at the nation's largest retailer.

A research report by George Strachan and J. Scott Ehrens of Goldman Sachs outlines six factors behind Wal-Mart's decision to expand its private label offerings:



DON LONGO
Exec Editor

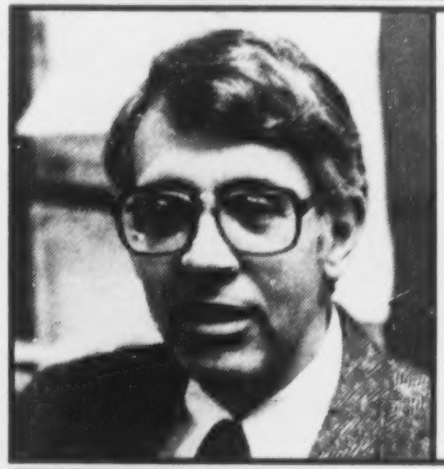
- Maintaining leverage with vendors: The development of private label programs should expand available vendor resources and thereby enhance Wal-Mart's bargaining position with suppliers.
- Guaranteeing another stable source of supply: Over time, the expanded offering of private label products could contribute to improved in-stock positions and faster product movement.
- Facilitating innovative product development: A private "control"label like Sam's American Choice will permit the company to bring its own spirit of innovation to its products.
- Appealing to a value-oriented consumer: A well-managed, private label program can enhance Wal-Mart's strong reputation for delivering value to consumers.
- Shopper receptivity to private labels: U.S. consumers are growing more receptive to high-quality, private label goods.
- Margin enhancement: Increased margins on private label merchandise will probably be used to reduce prices on national brand merchandise to maintain the company's position of price leadership in the discount store industry.

I've always felt that a quality private label can help a retailer build its customer franchise, especially in a down economy. Even Wal-Mart, which built its reputation as a national brand merchandiser, realizes it can only go so far footballing name brands. Wal-Mart's latest attempt of offering private label with panache mirrors the successful efforts of many supermarket chains that sell high-quality, gourmet-style private label products. Perhaps, though, Wal-Mart's private label initiative will give its competitors an opportunity to out-assort the discounter on national name brands.

TAKING STOCK

Taking Responsibility for News About You

When Newmark & Lewis closed two months ago, *Newsday*, a New York daily, erroneously reported that president Ron Fleisher had received his salary and severance pay while other employees' checks bounced. His check, of course, also bounced, but the newspaper's correction came too late to spare Fleisher some personal threats.



ARTHUR MARKOWITZ
Senior Editor

Everyone likes to read about newspapers' errors, mistakes that show journalists aren't Zeus. The *Newsday* bungle satisfied that craving. But it also pointed up the press' ubiquitous power for good—or bad—and how essential it is to make sure that journalists get the right information *before* they set pen on paper or appear in front of a minicam.

How often have politicians (Gov. Bill Clinton, for example) and companies (Dow Corning comes to mind) faced the need for 'damage control' to counter damaging stories. In such cases, consultants advise directly confronting the situation, responding quickly and honestly to questions. Johnson & Johnson's handling of tainted Tylenol packages a few years ago is a textbook example of successful"damage control".

It seems self-evident that a company with a positive story to tell would make every effort to get that information out—and to all media. Information is the common coin of all journalists, no matter what print or electronic megaphone they use. There also isn't any exclusivity in dispensing information: once a fact (or misinformation) appears in one report, it ripples through the entire community and influences everyone: those directly involved in a business like employees and suppliers and indirect participants like analysts, investors and journalists.

Many businesses have learned it's better to communicate beforehand than to blame afterward; it's better to respond to questions about "good news" expansion plans or "bad news" layoffs than to protest the stories that appear without a company's input. Zeus doesn't reside in any company. It's a tough crawl to reach the top of Olympus, but the fall can be precipitous and quick. Imputing the press doesn't cushion the fall.

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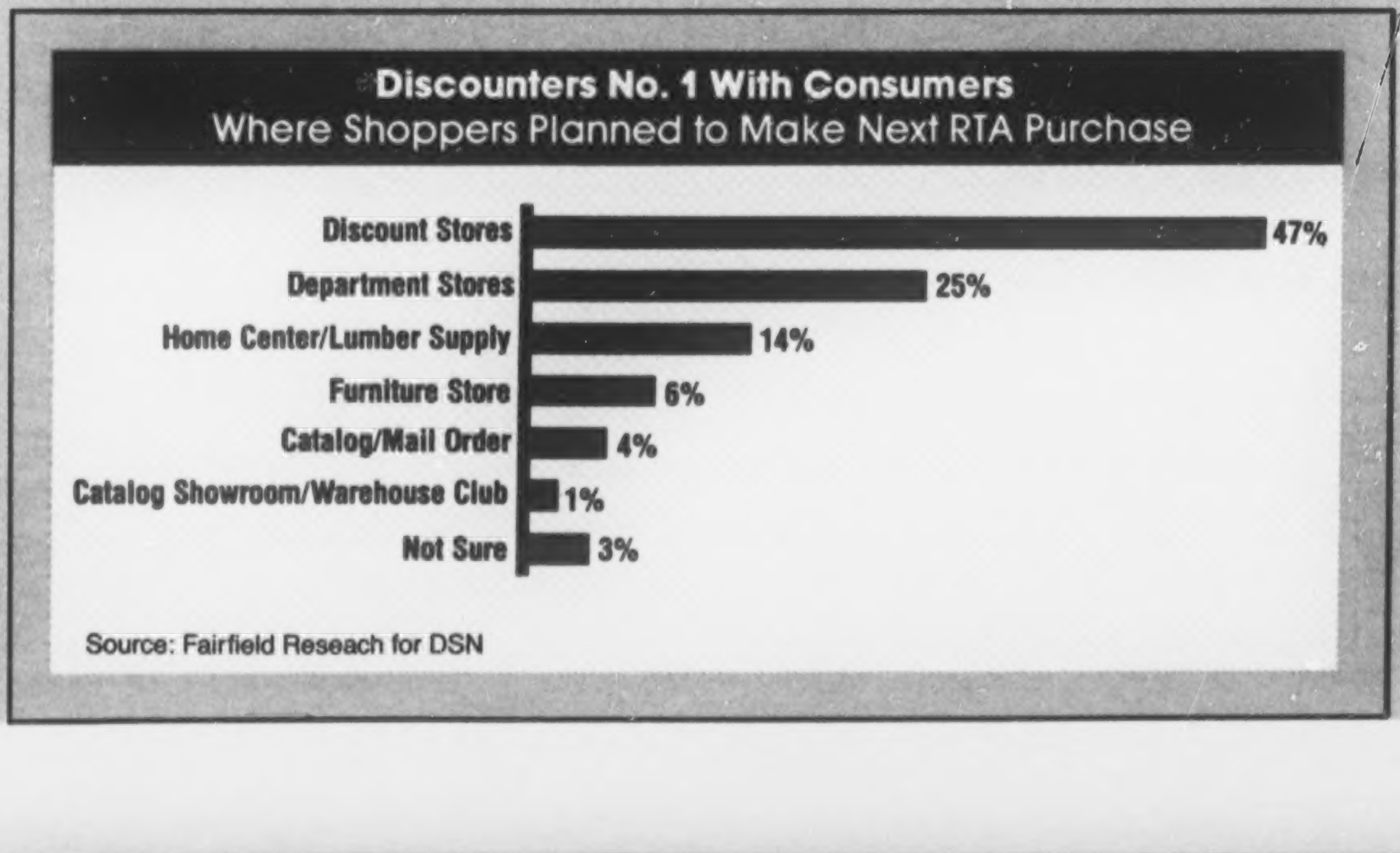
RTA MERCHANDISING

High-End or Low, RTA's Hot at Discount

Upscale RTA was expanded at Waccamaw and tested by other chains. (DSN photo)



Discounters No. 1 With Consumers
Where Shoppers Planned to Make Next RTA Purchase

Source: Fairfield Reseach for DSN

By Mary Ellen Kelly
Nationwide DSN Report

Are discounters trading up or trading down on RTA furniture assortments? Depending on the individual chain's history with ready-to-assemble furniture, some regional full-line discounters have opted to differentiate themselves by offering pre-assembled, higher ticket furniture, while others are intensifying efforts to provide basic RTA at hot price points.

Regardless of approach, discounters are the primary store that consumers visit when shopping for RTA furniture, according to new research conducted for *DSN* last month by Fairfield Research, Lincoln, Neb. Forty-two percent of consumers surveyed said their last purchase of RTA was at a discount store. When asked about where they would make a future purchase of RTA, an additional 5% of the survey population (47% total) said they would shop at a discounter.

Forty-two percent of consumers surveyed said their last purchase of RTA was at a discount store.

Caryn Sandler, buyer of home decor at Hills, the Canton, Mass.-based discounter now reorganizing under Chapter 11 protection, said the chain has expanded and "revamped the entire department," and is focusing on "moderately priced" RTA. The price ceiling was raised slightly to $129.97, she noted, but the vast majority of merchandise is concentrated at opening price point levels. In some of its remodeled stores—which are projected to comprise 46 of Hills' total 154 units by back-to-school season—square footage for the department has been increased by about 10%.

"My philosophy is to satisfy customer needs. I am on a never-ending quest," said Sandler. Her "quest" is expected to lead to new white finished pieces for kitchen or bedroom applications. She will be looking for new white finished and niche items to test at remodeled stores at the upcoming International Home Furnishings Show in High Point, N.C., this month.

Sandler projected that furniture department sales at Hills could be up by 15% or more for 1992.

Jamesway's buyer, Roshan Wijerama, said he is also developing his opening price point business and expects to find additional niche items at High Point. Metal furniture and computer desks which sold well during the second half of last year at promotional prices between $49 and $69 will be expanded, as will juvenile furniture.

"One of the most successful promotions we run are the $19.99 items from Affordable Furniture. Even if we run it every month, it always sells well. Low priced promotional furniture is our bread and butter," he noted.

The new Jamesway "store of the future" prototype, two of which opened last week in Delaware, roughly doubled the size of the typical Jamesway RTA department, which averages 2,000 sq. ft.

In contrast, at nine-unit, southern California regional discounter Fedco, the RTA category is more of a promotional section than a full category, according to Philip Jick, executive vice president, director of merchandising. "We have less than 100 sq. ft., mostly items like entertainment centers, TV stands and occasionally a desk on promotion."

The reason for Fedco's scant RTA mix is its dedication to the traditional furniture market. "Your Furniture Store," which is operated as a separate store, devotes be-

(Continued on page 23)